Rainforest to the Sea Daintree by Ian Tremewen

CLIMATE-RELATED DISCLOSURE AND GOVERNANCE TRENDS OF THE ASX50 IN 2021

March 2022

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CONTENTS

1 INTRODUCTION

2021 saw a fundamental shift in how some ASX50 entities approach climate-related reporting and governance. We've seen a new level of rigour being applied to ensure climate-related disclosures are accurate, scientifically-backed and based on reasonable grounds (particularly to the extent they are forward looking). Climate teams have also been bolstered, in some cases with the climate or sustainability officer a member of the executive leadership team.

This shift coincided with a number of developments in 2021. There was updated guidance released by the Taskforce on Climate-related Financial Disclosures (TCFD) in October, which calls for more (and more challenging) disclosure. Climate-related litigation continued (including the Santos 'greenwashing' case we've written about elsewhere). There was increased regulatory focus on 'greenwashing' (including by ASIC and the ACCC). And there was continued stakeholder scrutiny with comments and criticism aired at AGMs, in the media, and in public reports.

Our analysis for 2021 shows TCFD reporting continues to be the norm for the ASX50. We've also seen an increase in ASX50 entities disclosing climate risk in their operating and financial reviews (OFRs) in their annual reports, as well as disclosing scenario analysis, and (as expected) publicly setting climate-related targets and commitments.

On the governance side, we've seen an increase in entities reflecting climate-related matters in their governance frameworks. We've also seen an increasing number of performance targets for executive remuneration linked to climate and sustainability metrics, and an increasing number of entities seeking assurance over climate-related disclosures.

2021 also saw a spate of climate-driven M&A transactions, a trend which looks set to continue into 2022.

Against this backdrop, robust climate reporting and governance processes, that mirror or build on those used for financial reporting purposes, have never been more important.

INTRODUCTION

Key trends

- More **rigour** being applied by entities to their climate reporting as 'Say on Climate' votes kick off and climate-related litigation continues
- Updated TCFD guidance calls for more disclosure, including more **forward looking statements**
- TCFD aligned reporting confirmed as the **norm**
- Establishment of International Sustainability Standards Board (ISSB) signals movement towards **single global** baseline climate-related disclosure standard
- With almost all companies having made public measurable climate-related commitments, focus shifts to **interim** and **scope 3** targets, and showing **progress** towards those targets
- Majority include disclosure of **offsets**
- More entities linking executive **remuneration** to climate/sustainability performance
- Continued pressure to suspend memberships of **industry associations** where their approach to climate-related issues does not align with the entity's approach
- Some **Boards showing support** for shareholder-requisitioned climate resolutions
- Climate-related considerations **driving M&A**

Key predictions

- **Mandatory climate reporting** on the horizon, but not yet
- **TCFD** to remain market standard for now
- Greater interaction between **finance** and climate teams in relation to disclosure and financial impacts of climate change
- Greater focus on the role and integrity of **offsets**, as well as offsets disclosure, and greater demand for offsets with co-benefits that support a **just transition**
- Continued pressure on **interim** and **scope 3 target** setting, and progress towards targets
- Greater focus on biodiversity with the recent release by the Taskforce on Nature-related Financial Disclosures (**TNFD**) of their prototype disclosure framework

The cumulative scientific evidence is unequivocal: Climate change is a threat to human well-being and planetary health. Any further delay in concerted anticipatory global action on adaptation and mitigation will miss a brief and rapidly closing window of opportunity to secure a liveable and sustainable future for all. (very high confidence).

IPCC ARG WGII Summary for policymakers report, p35

Our key observations of climate-related disclosure and governance trends of ASX50 entities[1] (as at 31 October 2021) in 2021 are set out in this report. In reviewing our data we looked at annual reports and, where relevant, climate/sustainability/ESG reports that were released in 2021, as well as other publicly available information. We've also included in this report some predictions for what may lie ahead, for the remainder of 2022 and beyond.

By way of comparison, our report for ASX50 climate-related disclosure and governance trends of ASX50 entities in 2020 can be accessed here. That report also included a glossary and more detail on some of the terminology used in this report (e.g. 'net zero' and 'carbon neutral').

1. All references to 'entities' in this note are inclusive of entities with other corporate structures that are listed on the ASX (e.g. stapled securities).

2 KEY OBSERVATIONS FOR 2021

2.1 More rigour being applied in 2021 to climate reporting and supporting processes

As we approach 5 years since the release of the TCFD recommendations, we've seen some ASX50 entities move to a 'consolidation' or 'maturity' phase, applying a new level of rigour to their climate reporting and supporting processes.

This typically involves applying the same level of focus to the language included in climate reporting to that used in financial reporting, coupled with appropriately drafted disclaimers, a thorough verification process, an external TCFD compliance review and external assurance. On assurance, our analysis found 60% of the ASX50 in 2021 sought external assurance in relation to their climate-related data, a slight increase from 52% in 2020.

This increasing rigour is consistent with the updated TCFD guidance, which continues to call for the same level of rigour for climate-related disclosures that is applied for financial disclosures. It is also unsurprising given 'greenwashing' is a focus area for both ASIC and ACCC.

The Santos 'greenwashing' case commenced in 2021 may also have prompted some entities to take a more rigorous approach to their climate reporting. The successful Abrahams application may have also played a role – in that case access was granted to documents related to CBA's involvement in several oil and gas projects. According to the Abrahams' lawyer, this is the first time an Australian court has granted access to internal documentation to scrutinise a company's compliance with its net-zero climate change policy. These cases form part of a rising trend in climate change litigation, with Australia continuing to have the second highest number of cases, after the United States.

And it's not just investors and activists scrutinising climate reporting. Employees with internal knowledge may also act as whistleblowers, calling out entities where public reporting doesn't accurately reflect internal practice. A recent overseas example is Deutsche Bank AG's asset management arm, DWS, which was reportedly under investigation by US authorities after its former head of sustainability said DWS overstated how much it used sustainable investing criteria to manage its assets.

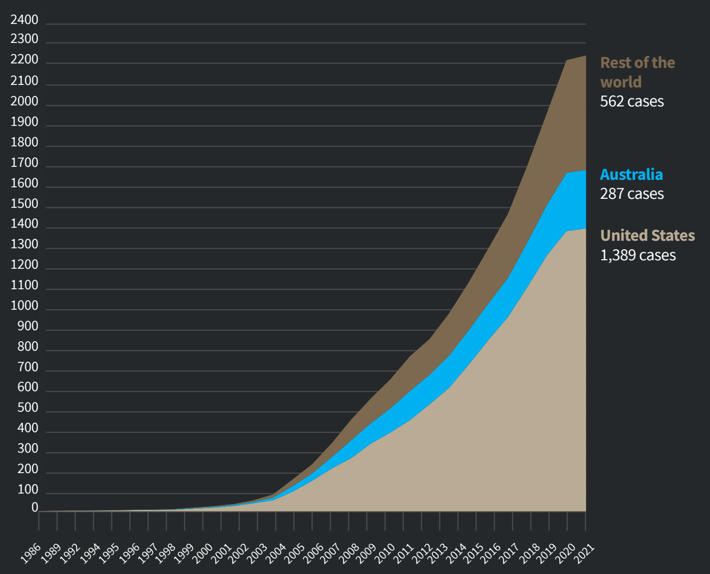
"Greenwashing is also very much in our sights…we encourage boards to look out for any greenwashing"

Speech by ASIC Chair Joe Longo, 3 March 2022

"The ACCC's focus on environmental claims and sustainability won't be limited to consumer goods…Where businesses have engaged in false, misleading or deceptive conduct we will act"

Speech by ACCC Chair Rod Sims, 3 March 2022

Trend in climate change litigation



2.2 Updated TCFD guidance calls for more (and more challenging) disclosure

In October 2021, the TCFD released a number of key updates to its guidance. In addition to strongly encouraging all entities to disclose scope 3 emissions, regardless of materiality, the TCFD guidance more explicitly addresses disclosure of actual and potential impacts of climate-related issues, disclosure of transition plans and disclosure against a set of cross-industry, climate-related metric categories for current, historical and future periods.

There remain a number of data and methodological challenges for entities calculating and disclosing scope 3 emissions. Even with these challenges, our analysis showed 36 of the ASX50 entities (72%) disclosed scope 3 emissions to some extent.

Other disclosures called for in the updated TCFD guidance involve making forward looking statements. These statements (like any forward looking statements) should be supported by appropriate governance processes. Those processes should identify the facts, assumptions and work done to support making those statements and also demonstrate how the statements have been approved. Governance processes should also inform how the forward looking statements are framed, including stating key assumptions, limitations and disclaimers. This is because the law generally assumes forward looking statements to be misleading unless there are reasonable bases to support those statements.

> *"…the governance processes should be as rigorous as those used for existing public financial disclosures, including review by the chief financial officer, audit committee, and Board of Directors, as appropriate"*
>
> *TCFD Annex, p 8, October 2021*

For more detail on the changes to the TCFD guidance, the associated challenges, and some tips for addressing these challenges, see section 3 **below**.

2.3 TCFD aligned reporting confirmed as the norm in 2021

As shown in the chart below, our analysis found 86% of ASX50 entities in 2021 either reported (fully or partially) against the TCFD recommendations, or disclosed that they were in the process of aligning their reporting to the TCFD recommendations. A further 8% said they supported the framework and were considering plans to align disclosures with the TCFD recommendations. This is an increase from 2020, where 82% reported against the TCFD recommendations, and 4% were considering reporting against the recommendations in future.

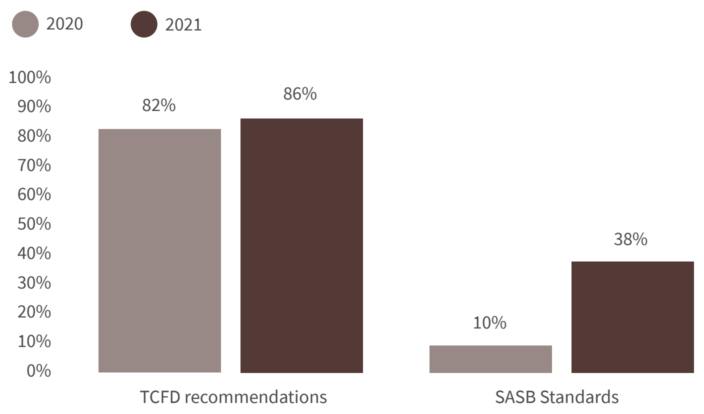
Those in the ASX50 that haven't yet began reporting or disclosed that they are considering reporting against the TCFD recommendations are mostly in the IT and healthcare sectors.

As we predicted last year, we also saw a significant increase in reporting against the industry-specific SASB Standards, which continue to be strongly supported by some of the largest asset managers.

Reporting against other key voluntary frameworks or standards in 2021, including the Global Reporting Initiative (GRI) Standards and the CDP (formerly the Carbon Disclosure Project), remained roughly consistent with 2020 (at 70% and 56% respectively).

Of the 35 ASX50 entities who voluntarily applied the GRI Standards, most (27) opted for the 'Core' option (rather than 'Comprehensive'). Of the 28 entities that completed the CDP questionnaire on climate change, most entities (20) received a score of B- to A. Our report last year contains more detail on the GRI Standards, CDP, and the options and scores.

Reporting against TCFD and SASB



2.4 Movement towards single global baseline climate-related disclosure standard

In response to feedback confirming an urgent need for globally consistent sustainability disclosure standards, at COP 26 the International Financial Reporting Standards (IFRS) Foundation announced:

- the creation of the new International Sustainability Standards Board (ISSB), whose purpose is to develop a comprehensive global baseline of sustainability disclosure standards;
- the consolidation of the leading investor-focused sustainability disclosure organisations into the ISSB – the Climate Disclosure Standards Board (CDSB – an initiative of CDP), and the Value Reporting Foundation (VRF), which is itself a recently established combination of the International Integrated Reporting Council (IIRC) and the SASB; and
- the publication of a prototype climate-related disclosure standard (as well as another general sustainability disclosure prototype standard). The prototype climate-related disclosure standard builds on the TCFD's recommendations and includes industry-specific disclosures. It is expected to assist the new ISSB in developing an exposure draft climate standard for public consultation in 2022.

On 24 March 2022, in another move towards convergence in sustainability reporting standards, the IFRS Foundation and GRI announced they will align programs and standard-setting, collaborating on an interconnected approach for sustainability disclosures.

Regulators in other countries have also moved towards requiring climate-related disclosures (most recently, the U.S. Securities and Exchange Commission). It now seems inevitable that Australia will move that way too at some point. However, there is an understandable reluctance to 'jump the gun' when so much internationally is currently in flux.

For more detail on what regulators and other groups are saying in Australia, see section 4 **below**.

2.5 In 2021, most ASX50 entities included climate-related disclosures in their OFR

The majority of ASX50 entities (86%) included climate-related risks in their OFR in 2021. This is a slight increase from 82% in 2020. For the most part, these are the same entities that reported (fully or partially) against, or disclosed that they were in the process of aligning their reporting to, the TCFD recommendations.

The OFR statutory disclosure requirement remains an area of focus for ASIC.

> *"Domestically, we are seeing more companies produce detailed climate-related disclosure in response to market expectations."*
>
> *Speech by ASIC Chair Joe Longo, 3 March 2022*
>
> *"Our surveillance activity will focus on the continued evolution of TCFD reporting standards in our market and of course statutory disclosure requirements such as those that apply to operating and financial reviews and disclosure documents."*
>
> *Speech by ASIC Commissioner Sean Hughes, 14 October 2021*
>
> *"The Council would encourage entities that believe they do not have any material exposure to environmental or social risks to consider carefully their basis for that belief and to benchmark their disclosures in this regard against those made by their peers."*
>
> *ASX Corporate Governance Council's Corporate Governance Principles and Recommendations*

2.6 Increase in disclosure in 2021 regarding scenario analysis

In 2021, 78% of the ASX50 disclosed that they used scenario analysis in their climate reporting (a slight increase from 74% in 2020).

Our review found that a variety of different scenarios (e.g. temperature limits and time horizons) continue to be used, with 1.5˚C - 2˚C the most frequently mentioned temperatures. Climate Action 100+ (the investor-led initiative responsible for over $65 trillion in assets under management) has recently released some updates to its framework and assessment methodologies, which include use of the International Energy Agency's (IEA's) 1.5˚C (Net-Zero 2050) scenarios for available sectors.

> *"Scenario analysis and stress testing for climate risks is a developing area, and APRA expects approaches to evolve and mature over time, however, the expectation of future improvements in approach is not a justification for delaying its use."*
>
> *APRA Final Prudential Practice Guide CPG 229 Climate Change Financial Risks, p 16*

APRA is continuing to seek to improve industry's understanding of the approaches being taken by APRA-regulated entities to identify, assess and manage climate-related risks, and is conducting a voluntary survey for medium-to-large APRA-regulated entities, asking them to self-assess how their practices align to APRA's guidance on managing the financial risks of climate change. We expect this will include scenario analysis, which forms part of APRA's final prudential practice guide: CPG 229 Climate Change Financial Risks.

APRA also intends to publish aggregated results of its climate vulnerability assessments in 2022, and has said it will consider extending the assessments to include the insurance and superannuation sectors in the future.

Other groups have recommended Australia produce a set of standard or reference climate scenarios and frameworks to assist with consistency and comparability.

2.7 Focus shifted in 2021 from setting net zero targets to setting interim and scope 3 targets, and showing progress towards them

Almost all ASX50 entities (92% in 2021) have now made public measurable commitments in relation to climate change. This is a significant increase from 64% in 2020.

Disclosure of interim targets was another addition to the updated TCFD guidance, which reflects the evolution of disclosure practices. Our analysis found a significant percentage of the ASX50 – 42% – disclosed interim targets in 2021 as "checkpoints" towards reaching their net zero goals. We expect this number will grow as the updated TCFD guidance is implemented.

And our analysis also found that the number of entities disclosing scope 3 targets had doubled, with 24% of ASX50 entities disclosing scope 3 targets in 2021.

Criticisms of targets (or lack of them) and progress towards those targets continued in 2021. For example, BlackRock voted against a director's reappointment at the 2021 AGM of one ASX50 entity in a carbon-intensive industry due to its "inadequate progress on scope 3 target setting", and a financial institution faced questions from shareholders at its 2021 AGM regarding its financing of fossil fuel projects being inconsistent with its goal of net zero by 2050.

For more detail on the types of targets and commitments companies are publishing, see section 5 **below**.

2.8 In 2021, the majority of the ASX50 included disclosure of offsets

2021 also saw increased scrutiny and criticism of the use of carbon offsets. Our review found 31 of the ASX50 (62%) mentioned offsets and/or recognised the role offsets are expected to play in transitioning to net zero.

> *"Disclosures of targets should be supported by contextual, narrative information on items such as organisational boundaries, methodologies, and underlying data and assumptions, including those around the use of offsets"*
>
> *TCFD Guidance on Metrics, Targets and Transition Plans, p 35*

Some entities disclosed the type of offsets purchased (e.g. Australian Carbon Credit Units). Others referred more generally to a variety of projects in which they have invested to generate credits that may assist in offsetting their emissions. Disclosures around the use of offsets were often accompanied by statements that the entity would only rely on offsets for 'hard to abate' emissions.

We expect that there will be greater focus on the role and integrity of offsets, following the agreement reached at COP 26 on the 'Article 6' rules for Paris Agreement carbon markets. The Climate Change Authority is currently undertaking public consultation on its review of the assessment principles for international offsets, NAB and other global banks are launching a carbon offset platform and the Clean Energy Regulator is anticipating the launch of the proposed online Australian Carbon Exchange in 2023.

Activists and other bodies also continue to be vocal in their criticisms of the use of offsets (see, for example, the reports by Greenpeace Australia and the Corporate Climate Responsibility Monitor). Investors and proxy advisers are also putting pressure on some entities where they consider transition plans rely too heavily on offsets rather than actual emissions reductions.

2.9 Governance remains primarily with Boards, with growing practice of sustainability or climate officers sitting on executive leadership teams and specific links to executive remuneration targets

In general, we observed that express responsibility for climate-related risks remains with the Board or the Audit and/or Risk Committee.

However, in some instances, Boards have delegated responsibility or partial responsibility to a dedicated Board Sustainability/ESG/ Environment Committee, in some cases in addition to other matters (e.g. health and safety). The number of ASX50 entities that had done this in 2021 was 40%, a marginal increase on 2020 (38%).

Around 68% of ASX50 entities in 2021 referred to climate, sustainability or ESG concepts in their Board charters, up from 60% in 2020.

In some cases, ASX50 entities have appointed a sustainability or climate officer who sits on the executive leadership team. Some examples include Qantas (Chief Sustainability Officer, appointed August 2021), Woolworths (Chief Sustainability Officer, appointed June 2021), Treasury Wine Estates (Chief Sustainability & External Affairs Officer, appointed March 2020), Newcrest Mining (Chief People and Sustainability Officer, appointed March 2020), Woodside (Senior Vice President Climate, appointed June 2020) and Coles (Chief Sustainability, Property and Export Officer).

46% of the ASX50 (23 entities) had performance targets for executive remuneration which were expressly tied to climate change / sustainability performance (a slight increase from 40% last year). These ranged from specific metrics relating to performance in the climate space (for example, a specific measure for greenhouse gas emissions reduction in the corporate scorecard, or 5% of a non-financial performance hurdle requiring strong performance against benchmarks including CDP) to broader sustainability concepts (for example, a scorecard measure relating to progress towards the entity's sustainability roadmap). All of these entities were in the materials, industrials, utilities and energy, banking and financials, or real estate and retail GICS sectors.

2.10 Continued pressure in 2021 to suspend membership of industry associations that are viewed not to be aligned on climate change, and some Boards showing support for shareholder-requisitioned climate resolutions

The number of ASX50 entities that included disclosure on their approach to industry associations remained static in 2021 (20 entities, as was the case in 2020).

However, even when this disclosure was provided, some of those entities still received shareholder-requisitioned resolutions at AGMs requesting that the entity identify inconsistencies between industry associations' views and the Paris Agreement, and take action to suspend membership where inconsistencies are identified.

Two entities continued the trend of the Rio Tinto Board (which we reported on last year) and endorsed these shareholder-requisitioned resolutions. However unlike in the Rio Tinto example, the associated constitutional amendment resolutions were not withdrawn and the Board endorsed resolutions were not required to be put to the meeting (although still received significant support from proxy and applicable direct votes at around 98%). As we reported last year, the Rio Tinto resolution was passed with 99% of votes cast in favour.

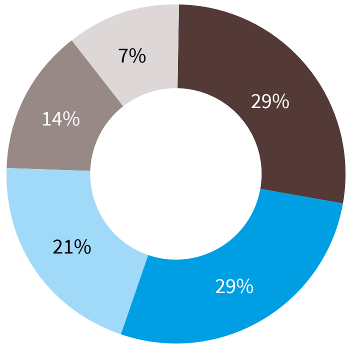
For more detail on the shareholder-requisitioned resolutions of ASX200 entities at 2021 AGMs (and the form these take, including the associated constitutional amendment resolution), see our February 2022 report: Deep dive into ASX200 AGMs in 2021.

2.11 More climate resolutions were requisitioned by shareholders at AGMs in 2021 and they also received greater support

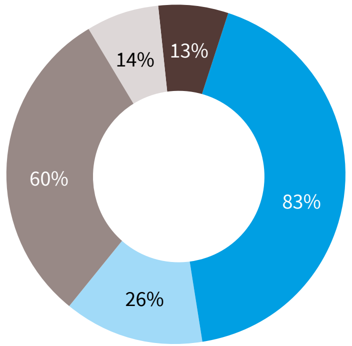
There were more shareholder-requisitioned resolutions relating to climate change at AGMs in 2021 (14, compared to 11 in 2020). Only two of the resolutions passed – both at Rio Tinto's AGM: the resolution in relation to industry associations mentioned above, and another in relation to disclosure of targets aligned with the Paris Agreement, which was also supported by the Rio Board.

The average support vote for the other climate resolutions increased to around 43%, compared to just over 32% in 2020. However these were never put to the meeting because the constitutional amendment resolutions on which they were contingent were not passed. The increase in the average support is probably at least partially attributable to the fact that, as mentioned above, the Boards of two other entities – BHP and South32 – supported climate resolutions.

Breakdown of climate-related requisitioned resolutions by resolution topic



Average proxy/direct voting support for climate-related requisitioned resolutions



Fossil fuel exposure
Industry associations
Disclosing targets
Annual shareholder vote on climate report
Capital expenditure alignment with Paris Agreement

2.12 First 'say on climate' vote successful

BHP held the first 'say on climate' vote of an ASX50 entity at its 2021 AGMs. The advisory vote to approve BHP's Climate Transition Action Plan was passed with an average support vote of 84% at its 2021 AGMs. BHP has proposed that it hold an advisory vote in relation to its Climate Transition Action Plan every three years.

In 2021, 5 other entities in the ASX50 (7 in the ASX200[2]) committed to putting a 'say on climate' vote at their upcoming AGMs in 2022. All of these entities are in the oil and gas, mining and energy sectors. At its 2021 AGM, CBA also reportedly said it was considering a 'say on climate' vote in the future.

Interestingly, entities that have committed to 'say on climate' votes at their 2022 AGMs still received shareholder-requisitioned climate resolutions in advance of those AGMs (e.g. Woodside, Rio Tinto and Santos). This suggests that 'say on climate' votes may not necessarily replace shareholder-requisitioned climate resolutions at AGMs for the time being.

Having said that, Rio Tinto subsequently announced that the requisitioned resolutions submitted by Market Forces for consideration at Rio Tinto's 2022 AGM had been withdrawn, because through constructive engagement and ahead of its 'say on climate' vote it had worked with Market Forces to address the subject matter of the requisitioned resolutions (by improving transparency in relation to its scope 3 approach).

2.13 Climate driving M&A in 2021

2021 saw the growth of a trend that has continued with gusto so far in 2022 – M&A activity driven by climate considerations.

Examples include the Santos/Oil Search merger, the Woodside/BHP merger (targeted for completion in the second quarter of the 2022 calendar year), the proposed AGL demerger and associated interest from a consortium including Brookfield Asset Management and Mike Cannon-Brookes' private investment vehicle, which was rejected, ANZ's commitment to invest in climate change investment and advisory firm Pollination, KKR-owned ERM's acquisition of climate advice firm Point Advisory, and more.

As with other climate-related disclosures, there is a risk of 'greenwashing' in scheme booklets and other public documents surrounding these sorts of transactions. The recent statements by ASIC and the ACCC in relation to greenwashing reinforce the need for robust climate-related due diligence and careful and considered climate-related disclosures in this context also.

2. This number includes Oil Search and Santos, who at the time of making the commitment were separate entities.

3 UPDATED TCFD GUIDANCE CALLS FOR MORE DISCLOSURE

The TCFD's updated guidance included a number of key updates, some of which will give rise to new challenges for entities approaching climate-related disclosures in 2022. Set out below are the key updates, the associated challenges, and some tips for addressing those challenges.

3.1 Key updates to TCFD guidance

The TCFD's October 2021 release included the following key updates:

- all entities are encouraged to disclose scope 1 and 2 greenhouse gas emissions, independent of an assessment of materiality. The disclosure of scope 3 emissions is subject to materiality, however the TCFD strongly encourages entities to disclose such emissions;
- all entities should disclose the actual impact, and consider disclosing the potential impact, of climate-related issues on their financial performance and position (and the TCFD encourages quantitative disclosure where possible);
- entities that have made greenhouse gas emissions reduction commitments, operate in jurisdictions that have made such commitments, or have agreed to meet investor expectations regarding greenhouse gas emissions reductions, should disclose their transition plans;
- all entities should disclose metrics consistent with a set of cross-industry, climate-related metric categories (see below) for current, historical and future periods, where appropriate;
- where relevant, entities should disclose their targets consistent with the cross-industry, climate-related metric categories; and
- entities disclosing medium-term or long-term targets should also disclose associated interim targets.

"…users were nearly unanimous in identifying financial impacts on capital expenditures and capital allocation as most useful…."

TCFD's Guidance on Metrics, Targets and Transition Plans, p4

3.2 Cross-industry, climate-related metric categories

"…users are keenly interested in organisations disclosing certain fundamental categories of metrics that are critical inputs for measuring financial risk."

TCFD's Guidance on Metrics, Targets and Transition Plans, p5

The cross-industry, climate-related metric categories are (in addition to scope 1, 2 and 3 greenhouse gas emissions as noted above):

- transition risks: amount and extent of assets or business activities vulnerable to transition risks;
- physical risks: amount and extent of assets or business activities vulnerable to physical risks;
- climate-related opportunities: proportion of revenue, assets, or other business activities aligned with climate-related opportunities;
- capital deployment: amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities;
- internal carbon prices: price on each ton of greenhouse gas emissions used internally by an entity; and
- remuneration: proportion of executive management remuneration linked to climate considerations.

The TCFD has defined these metric categories broadly to allow flexibility for entities to develop and adopt their own specific metrics within these categories.

3.3 Challenges and some tips for addressing these challenges

The updated TCFD guidance raises a number of challenges entities may not have had to face into previously. For example:

Challenge	Tips
Data and methodological challenges of scope 3 emissions There remain considerable difficulties associated with calculating and disclosing scope 3 emissions, including data availability, calculation methodologies, scoping and organisational barriers	• Clearly set out how you've calculated, estimated or otherwise obtained scope 3 emissions data, and disclose any exclusions, assumptions and limitations • The TCFD encourages organisations to refer to the GHG Protocol's The Corporate Value Chain (Scope 3) Accounting and Reporting Standard
Forward looking statements Disclosures regarding the *potential* impact of climate-related issues on financial performance and position, and disclosures against the cross-industry, climate-related metrics for *future* periods, are forward looking statements Like long term targets, *interim targets* may also be forward looking statements *Transition plans* may also involve significant uncertainty and be subject to change	• Ensure forward looking statements are based on reasonable grounds with supporting evidence and signed-off at the appropriate level • Consider including ranges (or qualitative directors), instead of a specific number, where appropriate • Ensure key assumptions and limitations are disclosed, and assumptions are reasonable and consistent with those used for other purposes • Consider describing the limitations, constraints and uncertainties in a transition plan (particularly of hard-to-abate sectors) • Consider including appropriate disclaimers • Ensure there is a robust internal reporting system to 'track' progress against the forward looking statement, associated reporting to relevant decision makers and education for disclosure officers

4 WHAT AUSTRALIAN REGULATORS ARE SAYING AND DOING

While regulators support a move towards a single reporting standard, they appreciate the need for Australia to remain flexible in its approach given the pace of international developments.

4.1 ASIC

While ASIC has expressed its support for the recently established ISSB, it continues to encourage listed entities to use the TCFD recommendations for climate-related disclosures (rather than the prototype standard released in conjunction with the establishment of the ISSB).

> *"ASIC is following developments closely and continues to participate in the IOSCO Task Force on Sustainable Finance, alongside our peer regulators. In light of this, it is important for **directors** to adopt a **proactive approach** as developments unfold."*
>
> *Speech by ASIC Chair Joe Longo, 3 March 2022*

ASIC has said it will engage closely with listed companies and investor groups throughout 2022 as the ISSB climate standards develop, and as mandatory reporting rules are introduced in other markets (e.g. the UK, NZ, etc). ASIC has also said any global rules will probably need to be adapted to the local environment.

Back in October 2021, ASIC said on the US SEC climate-related disclosure developments:

> *"Separately, we note that the SEC in the US has recently closed a wide-ranging consultation process on, among other things, climate-related disclosures for US listed companies.*
>
> *While it remains to be seen where these initiatives will ultimately land, they are important developments and ASIC is following them very closely, particularly with reference to their potential relevance to listed companies in Australia."*
>
> *Speech by ASIC Commissioner Sean Hughes at the Governance Institute of Australia Fellows Roundtable, 14 October 2021*

4.2 AASB / AUASB

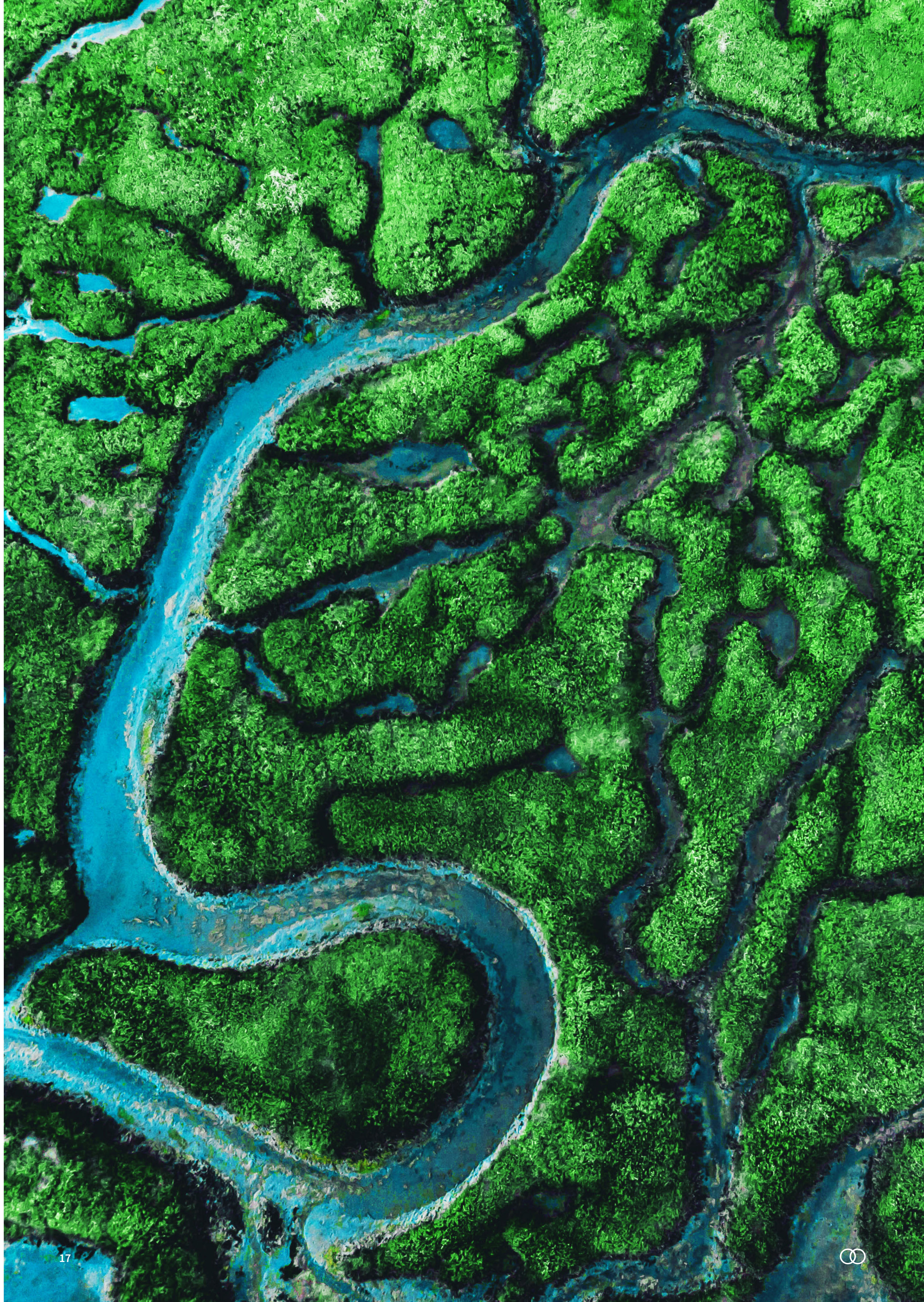
The Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) have said they intend to consider the work of the ISSB and other leading international frameworks and initiatives as they move towards developing sustainability-related reporting requirements in Australia.

In particular, they have outlined an approach by which the AASB intends to develop reporting requirements for sustainability-related information, simultaneously with the relevant assurance standards developed by the AUASB. They don't currently support establishing a new body that would specialise in developing sustainability reporting standards. They've also highlighted the need for Australia to remain flexible in its approach given the rapid pace of international developments.

> *"At this stage, the Financial Reporting Council (FRC) has expressed its support for the development of **voluntary** sustainability-related reporting requirements."*
>
> *Joint article by the AASB and AUASB, December 2021*

4.3 Other investor groups

There have also been calls for Australia to move towards mandatory climate-related disclosures. In June 2021 a joint initiative between CDP, the Investor Group on Climate Change (IGCC) and the Principles for Responsible Investment (PRI) released a plan for Australia to adopt mandatory TCFD-aligned disclosures.



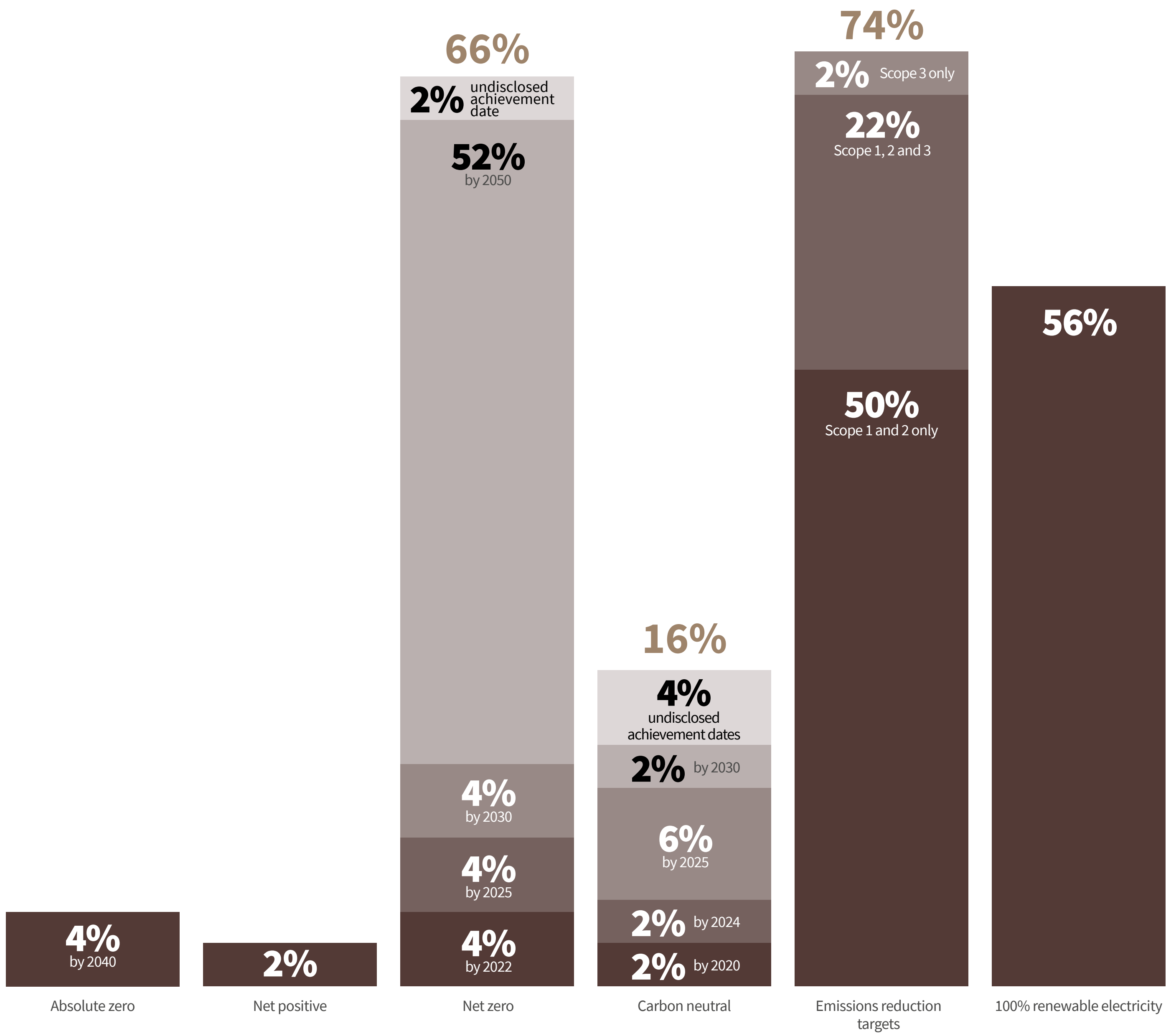
5 MORE DETAIL ON COMMITMENTS AND TARGETS

With almost all ASX50 entities (92% in 2021) now having made public measurable commitments in relation to climate change, the focus is moving to interim targets and scope 3 targets. Below we take a closer look at what commitments and targets were made.

5.1 Breakdown of types of commitments and targets being made

In 2021, the majority of ASX50 entities had made net zero targets, generally by 2050, although other research has found entities are now trending towards targets of net zero by 2030.

Others had committed to absolute zero by 2040, or to becoming (or had already become) carbon neutral. Interestingly, Mirvac Group disclosed that it had met its target to become 'net positive' in carbon in 2021.



Some banks and other entities have also stated that they are committed to removing reliance on fossil fuel or oil and gas projects. For example, NAB has committed to exiting thermal coal mining exposure by 2030, and has capped its oil and gas exposure at USD$2.4 billion.

5.2 Focus on interim targets

Consistent with the TCFD's updated guidance, in 2021 many ASX50 entities (21, or 42%) had already set short- and medium-term targets they aim to achieve before reaching their ultimate net zero or other climate goal.

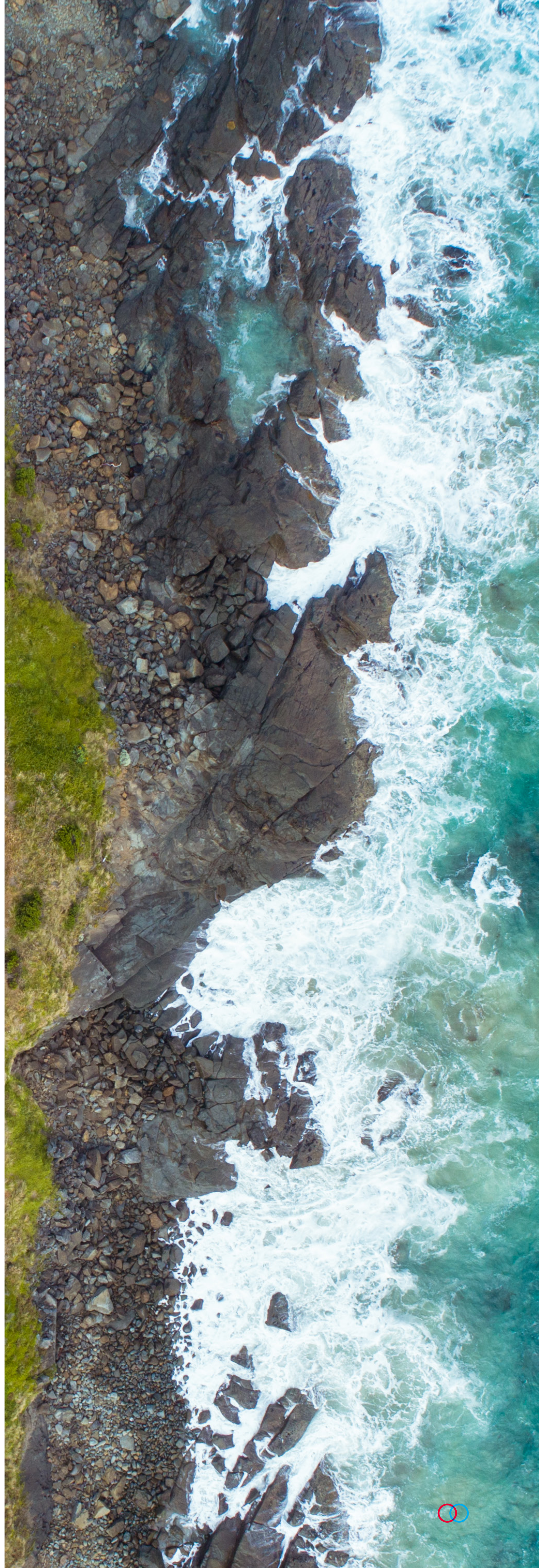
The interim targets varied between 10-50% emissions reductions, with target years between 2020 and 2035 (generally 2030).

5.3 Doubling in number of entities disclosing scope 3 emissions reduction targets

Our review also found the number of ASX50 entities that have made scope 3 emissions reduction targets has doubled (24% in 2021, up from 12% in 2020). Examples included:

- net zero targets by 2050 for the operational greenhouse gas emissions of certain suppliers subject to availability of goods and services;
- reducing scope 3 emissions from the supply chain by 25% by 2030;
- absolute zero carbon emissions, including scope 3 emissions, by 2040; and
- actively working with customers to reduce their emissions.

This continued to be an area of investor focus. For example, BlackRock voted against a director's reappointment at the 2021 AGM of an ASX50 entity in a carbon-intensive industry (which they flagged as being in lieu of a vote against the sustainability chair, who was not up for election), due to its "inadequate progress on scope 3 target setting". The entity has since released a Scope 3 emissions plan.



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