CENTRE FOR POLICY DEVELOPMENT

media release

Companies still lagging on modelling and disclosing impacts of climate change – more business, government and regulatory action is required.

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More Australian companies are considering in detail what the Paris Agreement on climate change means for their business strategy, but serious deficiencies in consistency and quality remain in modelling impacts of climate change and responses to it, concludes a report released by the Centre for Policy Development (CPD) today.

Climate Horizons, written by Sam Hurley and Kate Mackenzie, and featuring inputs from ClimateWorks Australia, comes one year after the report of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFDs). *Climate Horizons* outlines how companies, regulators and policymakers can build on recent progress and keep pace with international advances in sustainable finance.

"Companies that don't understand the possible impacts of climate change and climate policy on their business, or rely on flaky assumptions and resources for this 'scenario analysis', overlook big risks and opportunities," said Sam Hurley, CPD Policy Director and co-author. "They expose themselves and their shareholders to substantial risk."

"The TCFD identified scenario analysis as a critical tool for companies and investors that are serious about responding to climate risks. Markets, investors and regulators will look unfavourably on organisations whose climate scenario analysis is not up to scratch, especially now firms have had time to get across the TCFD recommendations."

"International best practice is moving ahead rapidly. More organisations are using ambitious scenarios that consider major emissions reductions and big policy and social changes to test their resilience. Scenarios that rely on business-as-usual assumptions – and corporate strategies based around them – are becoming less and less credible."

"It's great some of Australia's biggest companies and our financial regulators are now genuinely engaging with the implications of meeting the 1.5C objective in the Paris Agreement," said Kate Mackenzie, a CPD fellow, co-author and Policy Director at Climate-KIC Australia. "However, as a developed economy with a large pool of pension assets, and exposures to transition and physical risks relating to climate change, we can and should do better."

"Some of the early scenario exercises have employed questionable climate transition assumptions, and many are still overlooking physical impacts and providing little indication that these exercises have influenced decisions."

Anna Skarbek, CEO of ClimateWorks Australia, which contributed to *Climate Horizons*, agrees that businesses may not yet appreciate the scale of the transformation ahead, but can take immediate steps to address this.

"Done well, scenario analysis is a vital tool for companies to think through implications for their business of a hotter world; one where we must reach net-zero emissions as fast as possible and how their business can help to achieve that. Proper analysis can show how better governance, strategy and risk-management credentials will drive long-term value and profitability."

Climate Horizons provides a resource for firms and investors coming to grips with scenario analysis, outlines how Australian financial regulators can continue to support a proactive approach to climate-related risk reporting, and calls on the Federal Government to appoint a high-level taskforce to shape a sustainable finance agenda.

"The Federal Government has a huge opportunity to work with industry and turbocharge a sustainable finance agenda at home", said CPD's CEO, Travers McLeod. "It is critical to connect recent progress on climate risks to this wider agenda underway in the UK, Europe, Canada and elsewhere. A high-level taskforce should be appointed and asked to report after the next federal election, otherwise Australian companies and investors will be isolated as sustainable finance standards are finalised by our trading partners."

The release of *Climate Horizons* coincided with a public CPD forum in Sydney on financing a sustainable economy, which featured a keynote address on climate change by ASIC Commissioner John Price. In his speech, Mr Price emphasised the need for company directors to take a "probative and proactive" approach to climate risk, endorsing the conclusions of the Hutley SC legal opinion commissioned by CPD in 2016. He also highlighted the importance of the TCFD reporting framework and outlined an upcoming ASIC review of climate-related disclosures by listed Australian companies.

Kate Mackenzie and Sam Hurley are available for interview. Full report available here:
https://cpd.org.au/2018/06/climate-horizons/ Media Contact: Luisa Boll | T: 0411 184 360 | E: luisa.boll@cpd.org.au

Notes for Editors

What is climate scenario analysis?

Scenario analysis is forward-looking. It assumes climate change will make the future fundamentally different from the past. At its core, as the TCFD report argues, scenario analysis is "a tool to enhance critical strategic thinking." The TCFD report defines scenario analysis as a means of evaluating "a range of hypothetical outcomes by considering a variety of alternative plausible future states (scenarios) under a given set of assumptions and constraints". In March 2018, Sarah Breeden (Executive Director, International Banks Supervision, Bank of England), described scenario analysis as follows (https://bit.ly/2JP7y4i):

"For me what was groundbreaking about the TCFD recommendations was the introduction of scenario analysis - where firms set out the resilience of their strategy in different climate-related scenarios, including a two degree or lower scenario. To be clear these scenarios are not forecasts or predictions. Rather they are data-driven stories that are designed to enable the market to drive better decisions today. They are thus hugely more informative than spot observations of current exposures. And they are absolutely what is required to help investors price medium and long-term risks like these."

Here is a link to a TCFD video, which explains scenarios further: https://bit.ly/2JOOnrA

About the authors

- **Sam Hurley** is Policy Director of CPD's Sustainable Economy Program. He leads CPD's work on the implications of climate change for company directors, regulators and investors. He has also contributed to CPD research on tax reform, sustainable agriculture and public sector capability. Previously, Sam worked for six years as an economist and policy analyst at the Commonwealth Treasury, with shorter stints at the Department of Foreign Affairs and Trade and the Australian National University's Crawford School of Public Policy.

- **Kate Mackenzie** is a CPD Fellow and Director of Finance, Policy and Decision Metrics at Climate-KIC Australia (a Knowledge Innovation Community). She was previously Investment and Governance Manager at The Climate Institute. Her earlier career was as a financial journalist, with 10 years at the Financial Times in London and Sydney. She is the author of several papers on climate change and the financial sector, and has written for the Australian Institute of Company Directors and Australian Environmental Review.

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Policy recommendations of Climate Horizons:

- New guidance on climate risks by ASIC, the RBA and other regulators to support momentum for better disclosure of climate-related risks by Australian companies and investors.

- Close monitoring of climate-related financial disclosures by the Council of Financial Regulators over the next 12 months to assess the case for more demanding mandatory reporting requirements.

- For the Federal Government to appoint a Sustainable Finance Taskforce to develop a policy roadmap for green and sustainable finance in Australia, which would work with industry to align Australia's efforts with major strategic shifts underway in our major trading partners.