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CPD Business Roundtable on Climate and Sustainability

Sydney, 21 November 2019

Summary of Conclusions

Leaders from business, finance, law, insurance, superannuation, government and financial regulators from Australia and abroad met in Sydney on 21 November for a special business roundtable on climate and sustainability convened by the Centre for Policy Development (CPD).

The roundtable was held three years after a similar CPD roundtable, after which the landmark Hutley Opinion on climate change and directors' duties was released. That opinion and related efforts informed steps subsequently taken by APRA, ASIC and the Reserve Bank of Australia. They have spoken with one core message to say climate change is a "trend change" to the economy likely to have "first-order economic effects".ⁱ Our regulators have joined international efforts to raise the bar on climate risk management, disclosure and response. There has also been a marked shift on climate risk driven by business, the financial sector and the broader community. Companies are increasingly making climate risk disclosures and committing to net zero emissions pathways. Investors have lifted expectations and engagement with firms on climate risk management. The Commonwealth Government has acknowledged the "significant momentum building across sectors to address climate and disaster risks".ⁱⁱ Those pushing for greater action on climate risk are a broad church. They are shifting the horizon not only because of compliance but because it is the smart thing to do.

The 2019 roundtable took stock of the state of play on climate risk and considered what Australia needs to prioritise next. Senior executives and directors from Australia's biggest banks, insurers, investors, businesses and superannuation funds took part. They were joined by RBA Deputy Governor, **Guy Debelle**; Bank of England Executive Director, **Sarah Breeden**; APRA Executive Board Member, **Geoff Summerhayes**; ASIC Commissioner and ASIC Senior Executive, **John Price** and **Rachel Howitt**; former High Court Justice and Royal Commissioner, the **Hon Kenneth Hayne AC QC**; senior public service officials, two former heads of the Department of Prime Minister and Cabinet; a former Commonwealth Minister for Climate Change; along with representatives from the Secretariat of the Network of Central Banks and Supervisors for Greening the Financial System, the Reserve Bank of New Zealand, and the Investor Group on Climate Change.

The full agenda, participant list and framing paper are attached to this document. What follows is a summary of conclusions reached and now being released publicly. This summary has been prepared by the roundtable organisers. It does not necessarily reflect official policy or the position of any of the individuals or organisations present at the roundtable.

First, the consequences of climate change are upon us now, and decision makers across the Australian economy have a clear and increasing obligation to address the risks and opportunities it presents. It is clear climate change is a ratcheting risk, a trend change that is highly interactive, systemic and irreversible, and one which will impact every aspect of Australian society. History is no guide to its future impacts, meaning that forward looking scenario analysis is needed to manage the physical and transition risks it will generate. Australia's economy and financial system is particularly exposed given the significant physical risks the country faces and its profile as a commodity exporter. Australian business is at increasing risk of retaliatory action from other countries because of a perceived

view that Australia is not pulling its weight when it comes to reducing emissions. As awareness of these risks has grown, there has been a paradigm shift in regulatory and legal expectations. Companies must now meet rising requirements on climate risk reporting and management. Rigorous application of the Taskforce on Climate-Related Financial Disclosures (TCFD) framework is presently the most reliable way to do so. Regulators are pushing for their wide adoption and will eventually look to make key aspects of the TCFD framework mandatory. Company directors and fiduciaries increasingly risk liability if they consider climate-related risks as purely non financial risks. Boards should recognise the nature and scope of climate risk and the pace with which change must be made, develop strategic responses, and tell shareholders and the market what they are doing and plan to do. This is not just about managing negative impacts, but also about seizing opportunities in new technologies, products, industries and business models that will drive a zero carbon transition.

Second, climate risk must be made more visible and front of mind for company directors to pull forward the transition in the real economy. A significant ramp up in the availability and quality of decision-relevant information is needed in order for climate change to be appropriately addressed in the Australian economy. Awareness and disclosure among firms remains inconsistent and patchy. Present TCFD disclosures provide insufficient information to support accurate valuation of existing assets or informed decision making on necessary investments and infrastructure. Regulatory, financial and investor activity will soon require economy-wide stress testing for specified climate scenarios, and increase expectations for firm and system-level management of climate risks. To meet these expectations, regulators, firms, governments and sectors will need to work together to establish and use consistent scenarios, to share data, and to identify and commit to science-based targets and a net-zero trajectory consistent with the Paris Agreement. Joint work and resources to underpin more rigorous and consistent scenario analysis and stress testing is a key priority. Climate-focussed efforts will need to be aligned with new policy and industry-led initiatives to promote sustainable finance, including development of common standards to prevent “greenwashing”.

Finally, more effective collaboration and leadership across the public and private sectors is an essential condition to understand and respond to climate risk and opportunity as it impacts the Australian economy as a whole. Financial regulators have shown the power of collaboration through the Council on Financial Regulators Working Group on Climate Risk. The financial industry is doing likewise through initiatives such as the Australian Sustainable Finance Initiative and the Investor Group on Climate Change. The Commonwealth Government has the Australian Government Disaster & Climate Resilience Reference Group and the Australian National Outlook Project. Now is the time to join up this effort. A coalition of different actors could be formed to conduct a cross-sectoral climate risk assessment and develop a whole of economy approach. Collaborative processes like this are underway in other countries, as well as through the Global Commission on Adaptation and the Network of Central Banks and Supervisors for Greening the Financial System. These initiatives involve public and private sectors working together “to more explicitly price risk in both economic and financial decision-making”.ⁱⁱⁱ Collaboration is happening globally, particularly through the G20 and Financial Stability Board, but must also happen domestically to understand how climate risk impacts our financial system and economy, and what can be done about it. This needs to be an economy-wide mission, with suitable coordination and sharing of resources, data and expertise. It could be coordinated by a central Commonwealth Government department, working with senior officials from all jurisdictions, the Council of Financial Regulators, energy-market bodies, firms, investors and peak bodies. In the first instance, it could focus on national adaptation priorities and disaster preparedness in key cities and communities, including for essential infrastructure.

Roundtable participants were eager to assist in this process in order to facilitate a more resilient economy and to ensure communities are better prepared for the risks ahead.

ⁱ Dr Guy Debelle, Deputy Governor of the Reserve Bank of Australia, *Climate change and the economy*, speech to Public Forum hosted by the Centre for Policy Development, 12 March 2019.

ⁱⁱ Australian Government Department of Home Affairs, *National Disaster Risk Reduction Framework*, 2018.

ⁱⁱⁱ Global Commission on Adaptation, *Adapt now: A global call for leadership on climate resilience*, September 2019.

Participant List

<u>Name</u>	<u>Position</u>
Andrew Gray	Director - ESG and Stewardship, AustralianSuper
Calvin O'Shaughnessy	Asia Pacific Head of Natural Resources, UBS
Chris Barrett	CEO, InvestVictoria
Christina Tonkin	Managing Director, Loans and Specialised Finance, ANZ
Clément Bourgey	Banque de France and NGFS Secretariat
Dr Don Russell	Chair, AustralianSuper
Edward Northam	Europe Head of Green Investment Group, Macquarie
Emma Herd	CEO, Investor Group on Climate Change
Geoff Summerhayes	Executive Board Member, APRA
The Hon Greg Combet AM	Chair, IFM Investors
Dr Guy Debelle	Deputy Governor, Reserve Bank of Australia
Helen Wilson	First Assistant Secretary, Department of Prime Minister & Cabinet
Jacqueline Chow	Non Executive Director, Coles
Jo Evans	Deputy Secretary, Department of Environment and Energy
John Price	Commissioner, ASIC
Kate Lyons	Executive Manager, Suncorp
The Hon Kenneth Hayne AC QC	Professorial Fellow, Melbourne Law School
Mark Dooley	Global Head of Green Investment Group, Macquarie
Mark Joiner	Chairperson, QBE Australia & New Zealand
Dr Martin Parkinson AC PSM	Former Secretary, Department of the Prime Minister and Cabinet
Nick Jeffs	Head of Performance and Corporate Relations, RBNZ
Rachel Howitt	Senior Executive Leader - Corporations, ASIC
Sarah Barker	Special Counsel, MinterEllison
Sarah Breeden	Executive Director, Bank of England
Terry Moran AC	Chair, Centre for Policy Development
Associate Professor Tim Nelson	Executive General Manager, Australian Energy Market Commission
Professor Tom Heller	Stanford University and Climate Policy Initiative
Dr Travers McLeod	CEO, Centre for Policy Development
Vicki Wilkinson	Deputy Secretary, Fiscal Group, Department of the Treasury
Zoe Whitton	Head of ESG Research, Citi

Observers

<u>Name</u>	<u>Position</u>
Arjuna Dibley	Fellow, Centre for Policy Development / Stanford University
Denise Hang	Head of Regulation and Policy, Allianz Australia
Hugo Batten	Managing Director, Aurora Energy Research
Matthew Huxham	Principal, Climate Policy Initiative
Sam Hurley	Program Manager, Centre for Policy Development
Dr. Tom Gole	Partner, Boston Consulting Group / CPD, Board Member

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