

# ➤ Targeting Net Zero: 5 steps for stronger climate governance, disclosure and compliance

The last few years have seen a dramatic expansion of governance and disclosure expectations in relation to climate change risks.

ASIC, ASX and APRA have issued guidance material indicating that corporate disclosures must adequately address climate-related risks. These regulators have also indicated they will be stepping up surveillance of disclosure practices in relation to climate-related risks.

There is growing support that material climate change risks are relevant to a director's duty of care and diligence and the duty to act in the best interests of a company to the extent that they interact with the interests of the company.

On top of this, shareholder pressure for proactive corporate climate-risk management and risk disclosure has never been greater, foretelling the prospect of shareholder class actions for inadequate or inaccurate climate-related disclosures. We are already seeing this in action – in late July 2020, landmark proceedings were filed in the Federal Court against the Australian Government by the holder of government bonds, alleging a failure by the Government to disclose climate risk when issuing the bonds.

Against this backdrop, the time is ripe for publicly listed companies to establish robust climate change governance and disclosure frameworks, and to ensure those frameworks are supported by effective implementation and ongoing review.

**Set out in this guide are the key suggested steps in a governance and disclosure review.**

## 1

### Scope and assess risks

- Develop an understanding of your existing governance, risk and compliance framework relevant to climate change, and determine your climate change-related governance, disclosure and compliance obligations. Our experts can help you do this by, examining relevant aspects of:
  - directors' duties and disclosure requirements arising under the *Corporations Act 2001* (Cth), relevant ASIC guidance (including Report 593, Report 631, RG 247 and RG 228), the ASX Listing Rules, ASX Corporate Governance Principles and Recommendations (4th ed) and the AASB/AUSAB Practice Statement on Climate-related and Other Emerging Risks Disclosures;
  - duties and constraints arising under climate-specific federal and state/territory legislation;
  - duties arising under other industry or project-specific legislation (eg duties of superannuation trustees under the *Superannuation Industry (Supervision) Act 1993*); and
  - best practice frameworks, including the recommendations of the Task-Force on Climate-related Financial Disclosures.
- From this we would map out the key climate change risks across your various business lines, benchmarking against risks faced by comparable companies (domestic and global).
- You would then need to review your existing climate change risk register and other relevant internal documentation, assess the magnitude and likelihood of each risk and have discussions with your senior management team.

## 2

**Gap analysis**

- › Consider how you control and manage your key climate change risks (as identified during Step 1). We can work with you to review your existing policies and procedures, governance framework and other documentation relevant to managing your climate change risk.
- › Based on the findings of this review, consider areas where your climate change governance and/or compliance needs to be strengthened (ie a gap analysis), including your alignment with the climate change-related principles and recommendations in the ASX Corporate Governance Principles and Recommendations (4th ed).

## 3

**Recommendations and compliance strategy**

- › Following the gap analysis, our team would provide recommendations regarding:
  - practical steps to implement necessary changes to 'fill the gaps', focusing on embedding actions in existing governance, compliance and operational documents (eg standard operating procedures and policies);
  - strategy to establish appropriate ongoing lines of responsibility and reporting; and
  - strategy to ensure compliance with governance and other statutory duties is appropriately evidenced.
- › Recommendations should be (1) risk-based (magnitude versus likelihood), with higher risk matters front-ended and (2) reflective of your risk appetite and other board-approved frameworks.

## 4

**Implementation**

- › Implement the recommendations and compliance strategy approved by your business. This will include allocating individual responsibility for each implementation action, providing progressive reports to the Board and/or Audit and Risk Committee on the progress against the recommendations and compliance strategy, and any appropriate stakeholder communication. Our team can support you with implementation tasks.

## 5

**Ongoing improvement**

- › Finally, design and implement a process for regular review and improvement of your climate governance and compliance framework to keep pace with changes in scientific knowledge, climate policy, technology, financial conditions, peer behaviour and stakeholder expectations.

**Next steps**

Drawing on the experience of our integrated team of climate change specialists, we can assist throughout the process, from reviewing your existing framework, through to helping you identify and implement any necessary changes to ensure a robust framework going forward.

We would welcome a discussion with you about your current priorities in relation to climate change.

**Who to contact**

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