CLIMATE RISK: What the Board of Directors Need to Know

InConsult

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Introduction

In 2020, the US endured an unprecedented 22 weather and climate event disasters, each costing more than a billion dollars according to the National Oceanic and Atmospheric Administration (NOAA).

The climate is changing at the fastest rate in history with severe consequences for earth's inhabitants. The changing climate will impact the quality of our lives and the financial wellbeing of people and many organisations.

Climate change directly and indirectly impacts economic outcomes, such as agricultural output, critical economic resources, manufacturing, energy production, transport and other services, as well as wider measures of human welfare.

A 2017 report prepared for the Australian Business Roundtable for Disaster Resilience and Safer Communities estimated that the annual financial cost of disasters to the Australian economy over the past 10 years was around $18 billion. This is likely to reach $39 billion per year by 2050 if the current rate of population growth and development continues. Alongside these costs, run the intangible, social and environmental costs of disasters which are likely to be more costly and longer lasting, such as increased family violence, mental health impacts, chronic disease, suicide, alcohol and drug use, unemployment, crime, loss of biodiversity, extinctions, and food and water insecurity.

Climate change will further amplify these financial and intangible costs.

Should climate risks even be considered black swan events with the science behind them being well known and the extremes becoming less surprising? In a recent survey by FM Global, more than 75% of CEOs and CFOs admitted that their companies are exposed to climate risk.

Companies in all sectors, including the financial-services industry, are being asked: What are the implications of climate change risks and opportunities for your organisation's financial performance?

As a company director, you have a duty of care and diligence under section 180 of the *Corporations Act 2001* and under the common law. How is this relevant to climate change?

In the absence of any Court judgements, Australian companies can rely on strong and widely accepted legal opinion from senior barristers, Noel Hutley SC and Sebastian Hartford-Hughes stating that the duty of care and diligence requires company directors to respond to climate change risks when they intersect with the company's interests. The level of duty of care and diligence is rising as climate science hardens, and investors, regulators and other stakeholders' knowledge and demands increase.

The Australian Securities and Investment Commission (ASIC) has strongly endorsed this view with ASIC's Report number 593 declaring that directors and officers of listed companies "need to understand and continually reassess existing and emerging risks (including climate risk) that may affect the company's business. This extends to both short-term and long-term risks."

The duty of care and diligence can be breached if directors fail to:

- inform themselves of the climate change risks;
- consider these risks;
- respond appropriately to material climate change related risks; and
- appropriately disclosure the material risks and the company's response to them.

Entities that are not governed by the *Corporations Act* should not dismiss these responsibilities. Most of the directors' duties and responsibilities imposed by the *Corporations Act* also apply to such entities by virtue of their governing legislation or through common law obligations. For example, incorporated associations, charities, government bodies and organisations incorporated by their own Act.

More and more, organisations are focusing on the impact of climate change and environmental issues on their current and future corporate performance. The Board, CEO and corporate leaders have started to recognise that climate risks and opportunities are not abstract concepts, but instead are essential for creating a business model that delivers long-term value. As regulators and investors continue to increase their interest and influence in climate-related financial disclosures, it will become critical for directors to review their climate reporting processes.

Directors' Duties and Climate Risk

As a director or officeholder, your key duties include:

- being honest and careful in all your dealings;
- understanding what your company is doing;
- making sure your company can pay its debts on time;
- ensuring your company maintains proper financial records;
- acting in the company's best interests, even if this conflicts with your personal interests;
- using any information only for the good of the company. Using information to gain an unfair advantage for yourself or others could be a crime.

Breaching the duty of care and diligence has serious consequences and directors found to be in breach may be penalised by:

- a Court imposed fine up to $1.11 million or 3 times the benefit obtained or detriment avoided (whichever is the greater amount);
- an order to compensate the company or others for any loss or damage they suffer;
- disqualification from managing a company.

Breach by a director of their duty of care and diligence, including one arising from a failure to give appropriate consideration to material climate change risks, can also give rise to personal liability. Furthermore, a director may be found to have breached their duty if they do not appropriately disclose the risks posed by climate change to the business.

Legal proceedings against directors for breaching their duties can be brought by the company, shareholders, regulators and third parties under the *Corporations Act*, under the *Australian*

Consumer Law for engaging in misleading and deceptive conduct, and in common law for negligence.

If directors are found to be breaching their duties, their company may become a target for increased regulator and/or investor scrutiny which can increase its compliance burden and damage its reputation.

Former ASIC Commissioner, John Price, has spoken of a need for directors to adopt a 'probative and proactive' approach in gathering the information reasonably required to inform their decision making with respect to climate-related risk.

Directors should be able to demonstrate that they have considered climate change-related risk in their decision making, and that they have done so in a way that is more than 'cursory acknowledgment and disclosure'.

The Regulatory Landscape and Climate Change Policy

If companies and company directors fail to act urgently and coherently to climate change risks, then they will jeopardise their own future, expose themselves to legal action, assets may become stranded or uninsurable, investment stall, liabilities and debts go unpaid, and businesses collapse.

Customers, shareholders, governments, and regulators around the world now increasingly demand sophisticated and proactive responses to climate threats as they become increasingly aware of the need for integrated strategies to tackle, amongst other things, air pollution impacts, climate change and sustainable energy consumption. For example:

- The European High-Level Expert Panel on Sustainable Finance and the European Commission's Sustainable Finance Action Plan aim to steer capital towards sustainable investments and protect the financial system from sustainability risks like climate change.
- The Bank of England has released a paper on climate change and the macroeconomy, broadened its prudential supervision of climate risk to include banks and formed a network of central bankers for Greening the Financial System.
- Denmark's parliament recently voted to make its carbon reduction plan law. Denmark has one of the most aggressive climate plans of any country, aiming to reduce emissions to 70% of its 1990 carbon levels within 10 years.
- The Monetary Authority of Singapore (MAS) has issued finalised Environmental Risk Management Guidelines for banks. The guidelines focus on scenario and stress testing for material climate-related risks. Following several consultations, it has been designed to evolve as risk management methodologies for climate change continue to develop.

- Canadian securities regulators have been clear that climate change is now a mainstream business issue and that companies must disclose material climate risks and how they are addressing them. They have cautioned companies that 'boilerplate' disclosure of climate-related financial risks is no longer acceptable.
- The US approach is different. For example, the NYSE has thresholds for a company to qualify for stock listing, among other things, a company must have a certain number of shareholders and a minimum market capitalization. Environmental and social criteria aren't among the requirements. According to NYSE president, it's up to investors…"Investors should have the right to choose."

Australian developments

Australia is among the world's largest exporters of iron ore, uranium, coal and natural gas. It was the fourth largest producer of coal in 2017, according to the International Energy Agency.

As at September 2020, Australia's approach to climate action was rated as 'insufficient' by the Climate Action Tracker (CAT) website because Australia has not implemented an effective climate policy and Australia's Paris Agreement target were considered "Insufficient". CAT says the Australian government has shown no intention of updating its Paris Agreement target nor adopting a net-zero emissions target, with the Prime Minister specifically ruling this out. Australia's central climate plan is the Emissions Reduction Fund (ERF).

Although some aspects of the ERF have been praised, according to a 2019 Organisation for Economic Co-operation and Development (OECD) report, the economic body which monitors richer, industrialised nations, "Australia has adopted a piecemeal approach to emission reduction."

The states and territories and many local governments have advocated for 2050 net zero targets.

Whilst Australia's approach to climate action policy falls short, regulators are taking positive steps to minimise some of the risks. Australian regulators are continuing to promote and reinforce the need to understand, manage and report climate risks.

ASIC's Regulatory Guides expressly include the need to disclose climate change related risks and opportunities in prospectuses (Regulatory Guide 228) and in Operating and Financial Statements (Regulatory Guide 247).

Climate change related risks and opportunities have also been referred to in ASIC's recent reports, including in February 2018 where ASIC noted that it is 'prudent and appropriate for persons involved in the preparation of disclosure documents to carefully consider climate risk in the context of the issuer's business model and future strategies and prospects and make necessary disclosures where required.' In a further demonstration of the importance that ASIC places on climate change disclosures, ASIC published the results of its review of climate change related disclosures by the Top 300 listed companies later in 2018.

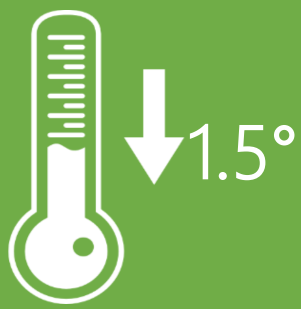
- The **Australian Accounting Standards Board** (AASB) and **Australian Auditing and Assurance Standards Board** (AUASB) released a joint Guidance statement confirming that financial statements must include an assessment of the material impacts of climate change. Companies and their directors that fail to do so may be found liable for breaching their duties and/or misleading disclosure under the *Corporations Act.*
- The **Australian Stock Exchange** (ASX) Corporate Governance Council's fourth edition of the Principles and Recommendations was released in February 2019. Recommendation 7.4 was revised to expressly include "material exposure to environmental or social risks" as matters that the board should report on. Listed entities are required to report against the fourth edition for their first full financial year starting on, or after, 1 January 2020.
- Climate risk is also an area of focus for **Australian Prudential Regulation Authority** (APRA). APRA recently surveyed 38 of the largest superannuation funds, banks and insurers, finding that while progress had been made in governance and risk management strategy, climate disclosure metrics and targets were the weakest components. APRA is also working on embedding climate risk into stress testing with the banking industry.

The upshot of this regulatory and legal environment is that as a board, and a director, you have responsibilities that include understanding, managing, and reporting on material climate risks. Failure to do so exposes you and the company to litigation, fines and adverse reputational risks.

You can find a summary of these climate change risk reporting requirements later in this paper.

Recognising Climate Risks and Opportunities

While the immediate physical impacts of climate change are already apparent – in things like heatwaves, and more extreme floods, droughts and bush fires – the chronic physical consequences will continue to escalate over time, for example with sea level rise, rising mean temperatures and disease spread.



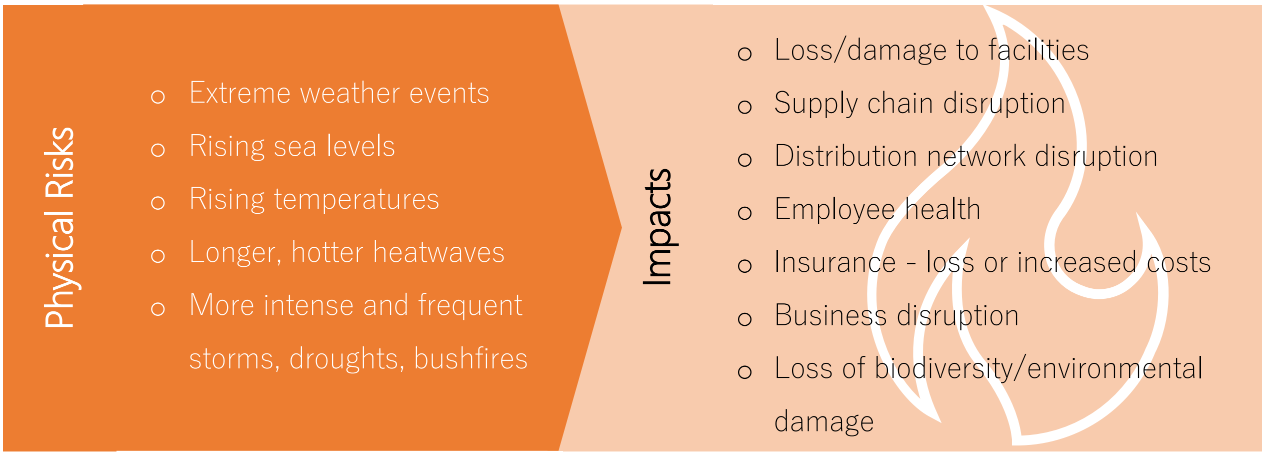
To help manage the accelerating changes to our environment a broad cross section of the world's top scientists, reporting as the International Panel for Climate Change (IPCC), have warned that we need to keep the global average temperature increase at below 1.5°C above pre-industrial levels.

To keep temperatures below these critical levels, there must be a rapid reduction in the amount of greenhouse gases that are emitted globally. 197 countries have signed up to the Paris Agreement committing to reduce their emissions in stages over the next few decades to reach zero net emissions. To help achieve this ambitious, but critical goal, many Australian States, Territories, and local councils have committed to a target of net zero emissions by 2050. Companies will be critical in helping to meet emissions reduction targets.

The risks, and opportunities, that accompany climate change, including those that result from the global response to tackling climate change, can be categorised as Physical Risks, Transition Risks and Legal/Liability Risks. All these risk categories have financial impacts on companies.

Physical risks

Physical risks are caused by rising global temperatures and will continue to worsen because of the persistence and growth of greenhouse gases in the atmosphere. Some of the risks and impacts are:



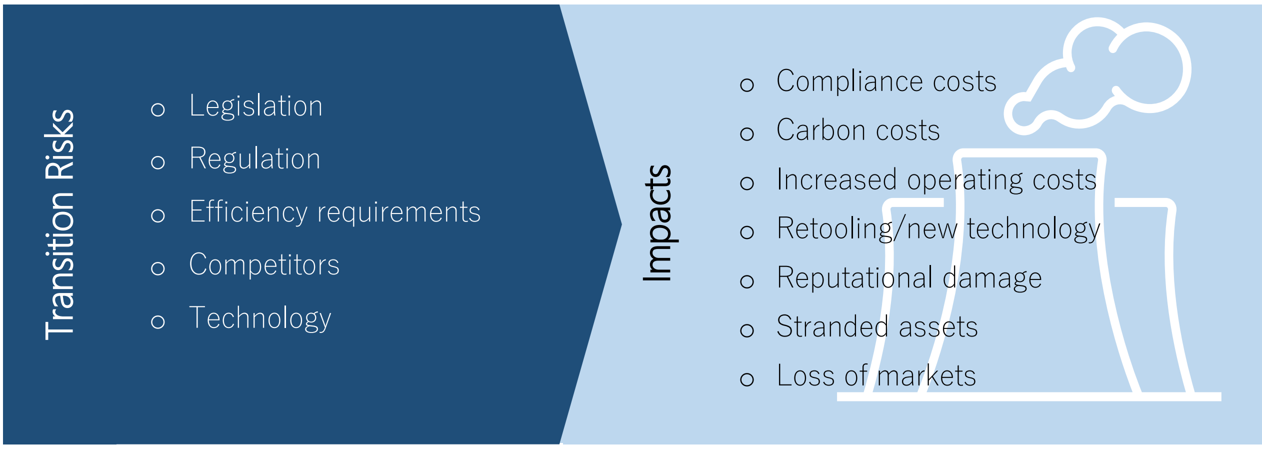
Examples of the hazards and possible impacts

Transition risks

Transition risks arise from the measures that are taken to move to a low carbon economy, reduce carbon emissions and lessen the impact in the long term of the physical risks. This is where the dichotomy between physical and transition risks arises.

The slower we act to reduce emissions, the worse the consequences of the physical risks will be and the longer we will suffer from them. If tipping points are reached, there will be no going back from some of the physical consequences.

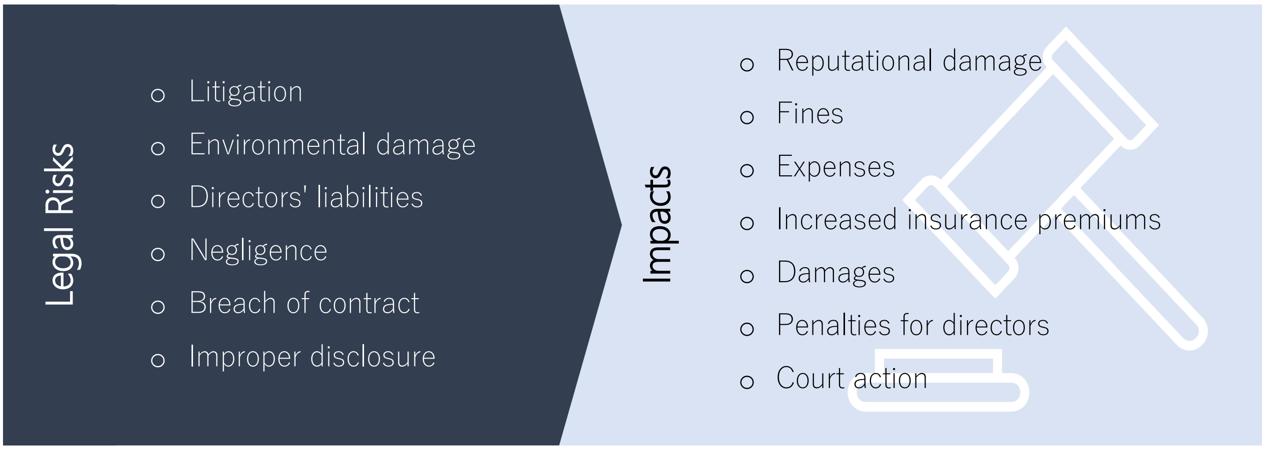
Acting slowly now to reduce emissions means that when we do put the brakes on, the transition impacts will be more severe, particularly for those who are unprepared. These risks include:



Examples of the transition risks and impacts

Legal risks

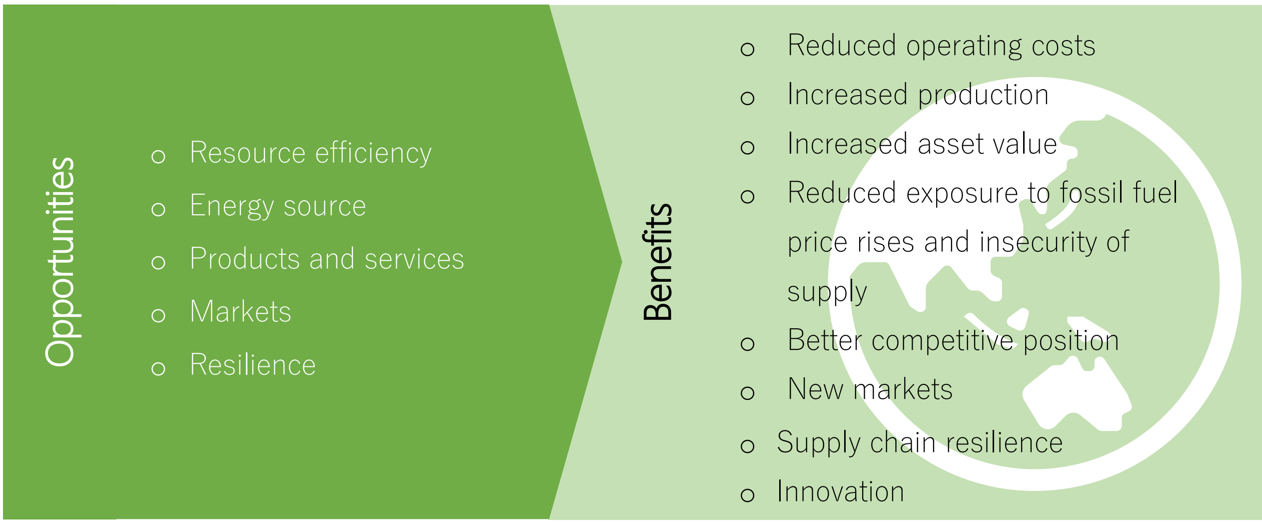
Legal and liability risks can result from regulatory non-compliance, failure to perform under contract, directors breaching their statutory duties and contravening other laws. Directors need to be aware that the number of climate change related lawsuits filed globally is increasing sharply. The London School of Economics reported in July 2020 that 1,600, cases had been filed, up from 1,300 cases recorded in March 2019. Some of the risks and impacts are:



Examples of the transition risks and impacts

Opportunities

Companies that understand and can quantify the financial risks that their businesses may face are in a better position to identify and develop strategies to profit from the opportunities available. Some of the opportunities that may be available are:



Examples of the opportunities and benefits

The Environmental Defense Fund reported in 2019 an increase since 2018 in the number of executives that feel their business and environmental objectives are at odds, 70% of executives are feeling pressure from customers and investors to prioritise sustainability and 80% feel pressured by regulators.

Companies that set targets based on a level of emissions that will keep the global temperature rise below 1.5° C are already seeing benefits from their actions. Two examples of opportunities viewed from different sectors are Origin Energy and Pfizer Inc.

Origin Energy

- Origin Energy committed to setting science-based emissions targets in 2017.
- As a significant contributor to Australia's energy and emissions, setting and working towards emissions targets in line with the Paris Agreement allows Origin Energy to play a part in setting Australia's energy future.
- This provides a strategic advantage because most of Australia's energy generators are nearing the end of their lives so the energy generation landscape will change.

Pfizer

- Pfizer committed to reducing the greenhouse gas emissions from its operations by 20% from its 2012 emissions baseline by 2020 and to a 60-80% reduction from a 2000 baseline by 2050.
- Pfizer's strategy includes energy efficiency and renewable energy projects, even though it is a relatively small emitter.
- Its efficiency and renewable energy reforms have resulted in energy and cost savings while still meeting its internal return on investment targets.
- By optimising the facilities' conditions, equipment and systems Pfizer has saved over $150 million a year in under 20 years.

Managing Climate Risk and Opportunities

An understanding of how climate risk might affect a company's financial position is fundamental to informing a robust risk management and adaptation approach and necessary for the directors to comply with their statutory duties.

The board should ensure that climate risks and opportunities are integrated into the development of the company's business strategy and risk management strategy to identify, analyse, prioritise, monitor and respond to the risks and opportunities that will be presented over time. The board must ensure that it, and the company's executives, are considering the risks, quantifying the financial impacts, and identifying and implementing appropriate risk management strategies to prioritise and remove or mitigate the risks.

Australian Standard AS 5334-2013 is relevant to the design, planning, construction, maintenance , operation and decommission of settlements and structures, which require a long term view of climate risk, but the framework and principles can provide guidance more widely to assessing and adapting to climate change.

Long term thinking

When integrating climate risks into the overall risk strategy, it should be recognised that climate risk requires a longer-term strategic approach than that taken with other established financial, operational and strategic risks. Climate risks and consequences should be carefully considered and analysed over the short, medium and long term.

How long? The Climate Financial Risk Forum (CFRF) which comprises senior representatives from across the financial sector suggests that "in addition to the standard planning cycle, climate change impacts should be considered over a longer period e.g. 30 years, with interim milestones."

Understanding the risks

As part of the risk management strategy, and to comply with their statutory duties, directors must fully understand the risks that could befall the company and know how it will respond and report accordingly. That consideration should include the unlikely, severe risks, as well as the common, less severe risks. Extreme events are becoming less uncommon and unfortunately may begin to look like the norm. The directors toned to understand the financial impacts to the company in the short, medium and long term and the strategies to respond and manage them.

The risks will not be uniform within or across industries or within a single company; they will be dependent on location, supply chains, operations and other considerations.

Managing and owning the risks and treatments

To develop resilience, particularly to climate risks that are complex, long term and difficult to predict with certainty, a company must be able to absorb multiple shocks, adapt to them or transform and grow. This requires the company to develop a strategy to remove, mitigate or overcome the risks identified. How well it is able to do this will depend on the quality of governance structures, appropriate risk assessments, strategic development and the setting of meaningful targets and metrics.

The Bushfire and Natural Hazards Cooperative Research Centre found, "Addressing risk ownership is premised on the concept that if risks are not owned, then more than likely they are not being managed; to own the risks, you first need to understand and accept them."

Monitoring and review

Ongoing monitoring and review of risk exposures, response plans and assets at risk is critical to reduce unexpected eventualities and good risk governance. The changing nature of climate risks, particularly transition risks, requires companies to be vigilant in their monitoring and internal reporting and agile in their responses. The response plans should recognise these needs.

An integrated approach

Climate risk management should be integrated into existing risk management strategies, but the specific nuances of climate risk need to be differentiated from well-recognised strategic, operational and ultimately, financial risks. At board level, this will require the delivery of a tailored training programme and the appropriate allocation of senior management responsibility from across different business areas.

Disclosing Climate Related Risks

Globally, the most widely accepted climate risk reporting framework is the one developed by the Financial Stability Board's **Task Force for Climate Related Financial Disclosures** (TCFD) to assist present and prospective investors to understand the financial risks and opportunities to the company of climate change and the strategies that companies are adopting to address these risks. There are 7 principles for effective disclosure under the TCFD.

1. Disclosure should represent relevant information;
2. Disclosures should be specific and complete;
3. Disclosures should be clear, balanced and understandable;
4. Disclosures should be consistent over time;
5. Disclosures should be comparable among companies within a sector, industry, or portfolio;
6. Disclosures should be reliable, verifiable, and objective;
7. Disclosures should be provided on a timely basis.

Core elements of the Climate Related Financial Disclosure

The TCFD reporting framework covers disclosures across the four elements of Governance, Strategy, Risk Management and Metrics and Targets.

Governance: Disclose the organisation's governance around climate-related risks and opportunities. Recommended disclosures:

- Describe the board's oversight of climate-related risks and opportunities;
- Describe management's role in assessing and managing climate related risks and opportunities.

Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material. Recommended disclosures:

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term;
- Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy, and financial planning;
- Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

Risk Management: Disclose how the organisation identifies, assesses, and manages climate-related risks. Recommended disclosures:

- Describe the organisation's processes for identifying and assessing climate-related risks;
- Describe the organisation's processes for managing climate related risks;
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Metrics & Targets: Disclose the organisation's governance around climate-related risks and opportunities. Recommended disclosures:

- Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process;
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks;
- Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.

Climate Related Reporting – Australian Requirements

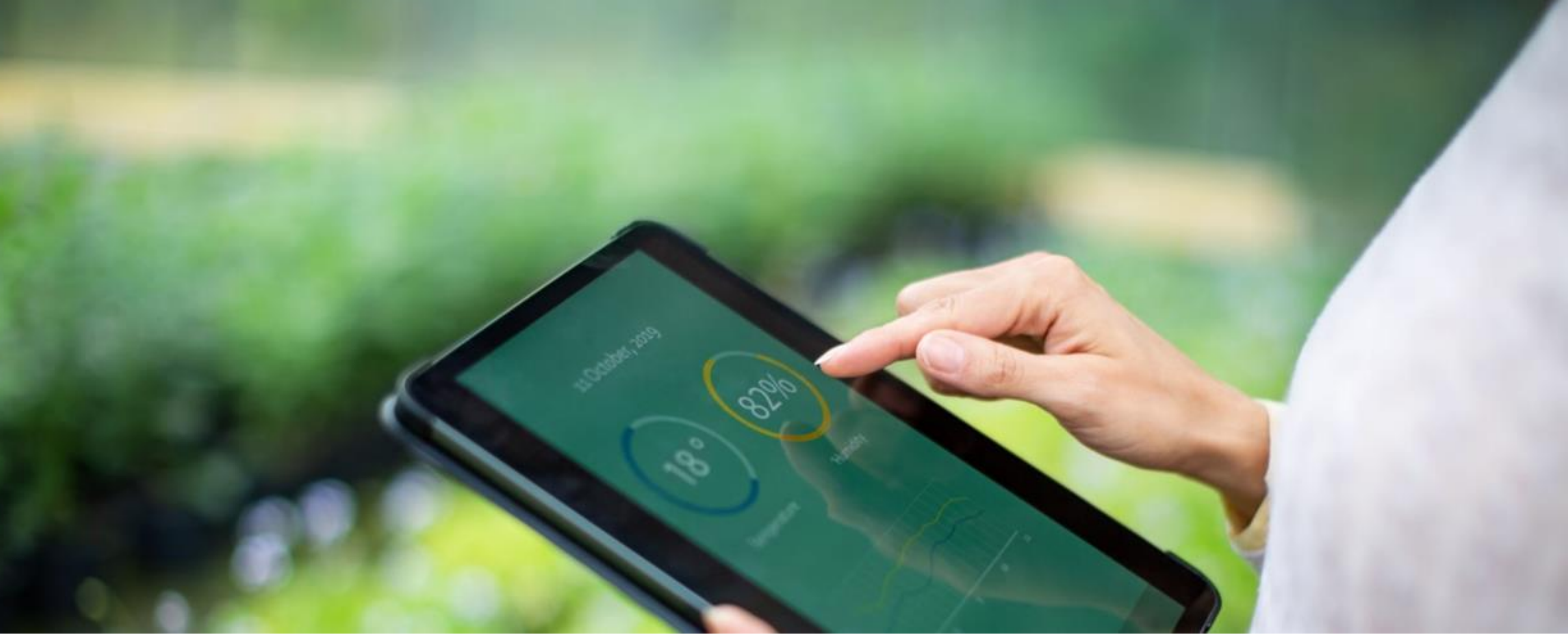
Regulators including the APRA, ASIC and the Reserve Bank all endorse and strongly recommend Australian reporting companies use the TCFD framework to manage and report their climate risks.

We have summarised the legal and regulatory climate reporting requirements for companies in the following tables.

Corporations Act/ ASIC: Regulatory Guidance on Operating & Financial Reviews (OFR) - RG247	
Applies to	OFR Disclosures
Requirements	o Report short-and longer-term considerations for performance o Describe factors underlying results and financial position o Use TCFD Disclosures o Board to specifically consider climate change risk
Disclosures	o Overview of business strategies, and prospects for future financial years o Impact on current strategy and/ or on future plans of material climate risks/ opportunities o Describe significance/ material impact of each risk o Relevant analytical comments e.g. increasing /decreasing risk o Control/management o Possible impact on the entity o Include ESG Risks, including systemic climate change risks where material to entity's future o Underlying drivers of matters relevant to understanding the company's operations, performance, position, and management progress

ASX: Corporate Governance Council Principles and Recommendations 4.3, 7.4	
Applies to	Board and listed entity reports
Requirements	○ Board to focus/report on process to verify the integrity of all corporate reporting including integrated and/or sustainability reporting ○ Board responsible for overseeing the entity's process for timely and balanced disclosure of all material information ○ Board to be satisfied of sound financial and non-financial risk management framework including for environmental risks ○ Board to explain the process for satisfying itself that climate disclosures are materially accurate, balanced ○ Must support investor decision making ○ Use TCFD Framework as relevant
Disclosures	○ Disclose material exposure to environmental and social risks ○ Disclose process to verify the integrity of any periodic released corporate report that is not audited or reviewed by an external auditor ○ Explain the balance and accuracy of climate-related performance KPIs and other narrative disclosures

AASB/AUASB	
Applies to	Financial Statements
Requirements	○ Climate risk assumptions are within the scope of the external audit scrutiny
Disclosures	○ Material climate -related risks to be disclosed and accounted for in Financial Statements



Beware the Challenges Ahead

Disclosure

ASIC has emphasised that statutory reporting obligations require climate change risks to be disclosed in a way that is "relevant and useful to the market". The TCFD guidance emphasises that the annual report should tell a clear and coherent story and guide the report user. It should connect governance, strategy, risk management, target-setting and performance and be consistent with disclosures made elsewhere by the entity.

The TCFD framework can, and undoubtedly will, be used as a basis for the development of mandatory reporting standards for listed and APRA-regulated companies. There are also suggestions that reporting standards will go beyond climate risk to consider Environmental Social Governance risks more extensively. The TCFD framework can be modified to manage and report these risks.

In recent reviews conducted by Climate Disclosure Standard Board (CDSB), the consortium that developed the reporting framework for the TCFD, the quality of reporting of the governance and metrics was found to be fairly good, but the strategy and risk management components of the reporting were weak. A recent survey found the top climate reporting trends to be:

1. Climate change was acknowledged, but not reported;
2. The disclosure of physical risks fell behind transition risks;
3. Companies were not using scenarios well and the assessment of the financial impact of climate risks was missing or scarce;
4. The quality of information disclosed varied across market sectors.

The goal should be to learn as you go, perfection is not the objective in the first instance. As your climate risk management matures, so too will the quality of reporting.

Implementation & Uplift

Like any other program or initiative that involves change, there are many risks and challenges ahead the board should be aware of.

- Obtaining leadership support. It is important for the board, CEO and leadership team to commit to climate risk management and lead by example. Strategies, driven top-down and supported by strong leadership and governance, will be essential to shift the corporate culture.
- Siloed risk management processes. Climate risks are interconnected and will have knock-on-effects across many areas within an organisation. Managing climate risk cannot be the sole responsibility of a siloed individual 'risk owner' or group within an organisation, such as the environmental sustainability team.
- Limited experience with climate change scenario analyses. Differing kinds of climate risk scenarios will introduce a range of possible outcomes and uncertainty. Translating these climate-economic scenarios into financial impacts requires some very educated guesswork, assumptions, and care.
- Maladaptation. This occurs when you implement an action that reduces your climate risk in one area or in the short-term, but increases risk in other areas, on other groups, or in the medium- to longer-term.

The Board's Climate Risk Checklist

To help comply with your duties as a director, to fully implement beneficial change and make meaningful compliance disclosures, the Board should take a number of important actions:

- Educate and inform itself of its obligations, applicable climate risks and opportunities, and their financial impacts on the company under different climatic and transition scenarios.
- Oversee and engage with the Audit, Risk and/or Sustainability Committees. Climate risks and opportunities are likely to be increasingly raised by regulators and external auditors and committees will need to be ready to engage. Ensure members of the committees have the appropriate skills in climate risk.
- Take a position on climate change. Develop a climate policy to assist in the setting of meaningful and effective targets.
- Develop a climate risk strategy for the company with due regard to matters such as the potential seriousness of the harm, the probability of the risk and the burden and practicality of various risk solutions. Embed climate risks into enterprise risk management.
- Assess the company's vulnerability to climate risks, undertake scenario analysis and understand the company's resilience under the strategy under different climate-related scenarios. The TCFD recommends scenario analysis as an important and useful tool for audit committees and boards to understand strategic implications of climate-related risks and opportunities. Scenario analysis evaluates a range of hypothetical outcomes by considering a variety of alternative plausible future scenarios under a given set of assumptions and constraints.

- Ensure the climate risk assessment includes quantitative and qualitative considerations and incorporates forward-looking perspectives regarding climate risks associated with corporate objectives, growth strategies, new products, and environmental, social, and regulatory changes.
- Ensure the relevant areas of the business, including sustainability, governance, finance, and risk areas are all involved in developing strategy and climate risk management and agree on their roles.
- Review and approve the key metrics used to measure and manage climate-related risks and opportunities, including metrics related to water, energy, land use, and waste management.
- Ensure reporting and disclosure meets the 7 principles for effective disclosure under the TCFD (outlined above). Climate risk disclosure is not a tick-a-box-exercise that can be achieved with generic and vague disclosure. Companies must ensure that public disclosure meaningfully reflects their estimate of climate related regulatory, physical, and operational trends and uncertainties. The TCFD recommends that the company disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material, by describing the climate-related risks and opportunities the company has identified over the short, medium, and long term.
- Ensure uncertainty is addressed. Uncertainty in respect of climate impacts and the trajectory of global warming does not mean the board can ignore the potential foreseeable financial impacts. It is important that the board and its audit committee recognize that there is uncertainty in respect of climate financial impacts; however, the TCFD and the CSA recommend disclosure of material climate-related risks, even where there is some uncertainty in projections.
- Ensure that climate change is integrated into governance processes, ensuring that board, executive and committee responsibilities, accountabilities and information flows are clearly identified and documented. The TCFD recommends integrating climate change into key governance processes, enhancing board-level oversight through audit and risk committees. The TCFD notes that the 'design, implementation, and maintenance of a robust system of internal control over climate-related information can enhance its utility for internal and external decision makers.

- Ensure that internal audit has performed an audit of emissions data, systems, processes to ensure integrity of reporting to management and the board.
- Ensure the company's internal audit function extends to key suppliers and include due diligence on third-party capabilities to manage and adapt to climate risks.
- Review the structure of the annual report and consider how the recommendations of the TCFD can be incorporated into the discussions of risks, strategy, financial prospects, and governance.
- Ensure that reviews of climate risks and opportunities are regularly performed and reflected in different organizational processes and that they are provided with adequate information and expertise (internal and external) to make informed decisions.

Taking the Next Steps

Climate change and its impacts are a growing financial risk and all the company's directors have a duty to identify and manage material climate-related risks and opportunities in the best interests of the company and its stakeholders in the short, medium, and long term.

Many organisations are increasingly focusing on the impact of the climate change and environmental issues on current and future corporate performance.

How green do you want to be?

Compliance Management	Reputation Management	Climate Risk Resilient	Climate Warrior
We manage the environmental and climate risks to meet our minimum legal and regulatory compliance obligations	We make decisions and manage risks to meet key stakeholder expectations as part of our corporate and social responsibility statement	We recognise the impact of climate change on our business and stakeholders and make policies and conscious decisions to mitigate its impact, and build our resilience	We go beyond managing our resilience to actively promoting sustainable environmental practices internally, to our customers, in our supply chain and in our industry.

The Green Scale - © InConsult 2021

Our best opportunity to modify the path of greenhouse gas emissions and thereby slow climate change lie in human endeavour and behaviour – it is only by people's efforts, innovations, investments and policy changes that climate change can be addressed. These efforts can be categorized into two broad areas:

1. Adaptation: Adjustments and investments that society must make in order to limit the negative impacts of climate change.

2. Mitigation: Efforts to reduce or prevent emission of greenhouse gases, such as investments in and use of new technologies, renewable energy, making older equipment more energy efficient, or changing consumer or business behaviour.

The Board, CEO and leaders now realise that climate risks and opportunities are not abstract concepts, but instead are essential for creating, protecting or changing a business model that delivers long-term value. Furthermore, when managing climate variability in the future, organisations cannot simply rely on the assumption that the prevailing climate will be more or less the same as it was over the past 10, 20, 50 or 100 years.

The impact of climate issues will impact economic performance, reputation, social behaviour, infrastructure, and other aspects of human existence. Climate changes are likely to develop gradually but could be abrupt.

As governments, regulators and investors continue to increase their interest in climate-related financial disclosures, it will become critical for all organisations to review the way they recognise, manage and report climate related risks.

How Can We Help?

We understand that climate risk management is new to many organisations and it can be difficult to know where to start or what to do next.

At InConsult we can assist you as much or as little as you want, whether it is reviewing your current processes, working with you to conduct a TCFD gap analysis, designing and implementing a robust climate risk management framework to help build resilience to future physical and transitional disruptors.

- Climate Risk Management Framework Development.
- Climate Risk Reporting & Compliance Gap Analysis.
- Climate Risk Mapping & Resilience Assessments.
- Climate Change Based What-if Scenario Analysis.
- Climate Risk & Sustainability Awareness Campaigns.
- Extreme Weather Event Disruption Exercises.

References

Climate Disclosure Standards Board & Sustainability Accounting Standards Board

TCFD Good Practice Handbook

Climate Disclosure Standards Board & Sustainability Accounting Standards Board

TCFD Implementation Guide

WWF

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World Economic Forum

Toward Common Metrics and Consistent Reporting of Sustainable Value Creation

Climate Action Tracker

https://climateactiontracker.org/

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