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ACSI

Climate-related Financial Disclosure Statement (TCFD)

October 2024

Foreword

Climate change presents a range of financial risks and opportunities for investors. These are often defined as physical risks associated with rising mean global temperatures (such as rising sea levels and increased severity of extreme weather events). and transition risks and opportunities as the economy adjusts to a lower carbon future. Transition risks include the impacts of regulation and new technologies on markets.

For long-term investors, managing climate-related risk requires (among other things) investee companies to set their strategy to adapt to a low-carbon future. This includes a company demonstrating how climate risks and opportunities are integrated into its governance, strategy and risk management processes.

As a representative of long-term investors, ACSI engages with companies to understand their approach to managing the climate-related risks and opportunities material to their business, the challenges they face, and to clearly communicate our expectations.

Historically, we have recommended the risk assessment and reporting framework in the Financial Stability Board's Taskforce on Climate-related Financial Disclosure (TCFD) and encouraged disclosure to extend to strategies, metrics and targets to manage risk. Our most recent research into ASX200 climate disclosures showed that 82% of the index reports, or is committed to reporting, against the TCFD.

The work of the TCFD has now been absorbed by the International Sustainability Standards Board and we commend the efforts to move towards a global baseline for climate reporting by issuers of capital. As Australia moves towards mandatory climate-related disclosure, we are encouraged by the broad support for climate-related disclosure, while also recognising the shared challenges.

We encourage companies to conduct and disclose scenario analysis that considers the transition risks of moving to a Paris-aligned economy as well as the physical risks associated with unmitigated climate change.

Adopting disclosure ourselves is our way of keeping ourselves accountable to what we expect from the companies we engage with. Although we do not have material climate-related risk exposure directly within in our own business operations, like all organisations, we are exposed to systemic risk. We also engage in public policy advocacy, with the aim of supporting public policy settings that appropriately manage the risks and promote the opportunities. Given the benefit of assessing and addressing climate change risk, we are reporting here on ACSI's progress.

This report aims to demonstrate how it can be useful for businesses of all shapes, sizes and industries to undergo regular examination of their own exposure to climate change, and to question how it will impact our organisation going forward.

About ACSI

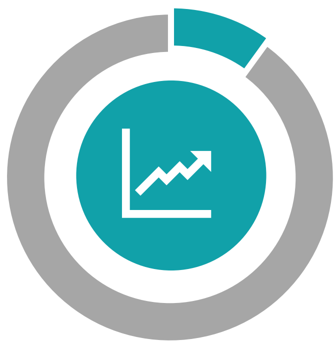
Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with more than $1.9 trillion in funds under management.

Through our research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership, which enhances the long-term value of the retirement savings entrusted to them to manage.

ACSI members can achieve value for their beneficiaries through genuine and permanent improvements to the ESG practices of the companies in which they invest.

Australian & international investors

Leading voice on ESG issues and advocacy



ACSI members manage over $1.9 trillion in assets

Acknowledgement of Country

We acknowledge and respect the traditional lands and cultures of First Nations people in Australia and globally. We pay our respects to Elders past and present and recognise First Nations peoples' longstanding and ongoing spiritual connections to land, sea, community and Country. Appreciation and respect for the rights and cultural heritage of First Nations peoples is essential to the advancement of our societies and our common humanity.

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Governance

The Australian Council of Superannuation Investors (ACSI) (ACN 164 568 610) is a public company limited by guarantee domiciled in Melbourne, Australia. As at 1 October 2024, ACSI employs 25 permanent staff, and we support our Australian and International members. ACSI is a standalone entity whose registered office and principal place of business is Level 15, 2 Lonsdale Street, Melbourne, Victoria Australia.

ACSI climate change principles

ACSI supports the Paris Agreement aim of limiting global warming to 1.5 °C.

A planned and orderly transition to a low carbon economy is preferable to a disorderly transition. This includes supporting an equitable and just transition for workers, communities, and other stakeholders.

Investors have an important role to play in driving the low-carbon transition through their stewardship activities. This includes engaging with investee companies on climate change risks and opportunities and public policy advocacy.

ACSI governance oversight of climate-related risks and opportunities

At ACSI, we recognise the risk that climate change poses, as a business, individually and within our community. Climate change, and its impact on our members and their beneficiaries, is an important issue in our work. We seek to understand how climate change will impact our business, and our members' investments, and actively seek to minimise the risks.

Our Governance structure, and how we oversee risk management in relation to climate risk, is outlined below:

Executive Management

The Executive Management Team (EMT) is responsible for the assessment, development, and implementation of risk management activities, including to identify, prevent and mitigate risks, including climate-related risk.

Finance, Risk and Audit Board Committee

The FRAC assists the Board in discharging its responsibility by advising on the effectiveness and operations of ACSI's internal controls over financial and other operations and reporting and compliance with legal and regulatory requirements.

ACSI Board

The Board is responsible for the oversight of ACSI's audit, compliance and risk management and the interpretation of ACSI's rules and policies.

ACSI Member Advisory Council

The ACSI Member Advisory Council is an advisory body that reviews ACSI's proposed work program, including in respect of climate change, in consultation with Management. Its members provide advice on the goals and direction of ACSI's research, engagement and policy advocacy agendas, which include climate change risks and opportunities as a key area of focus. However, ACSI's policy agenda and strategy is ultimately overseen by the Board.

Management's role in assessing and managing climate-related risks and opportunities

ACSI is a member-based organisation supporting long-term investors and asset owners. Our members view environmental, social and governance risks and opportunities, including climate change, as financially material for long-term investment performance.

The long-term investment time horizons over which ACSI members invest intersect with the timeframes over which climate-related physical and transition risks and opportunities are likely to impact. Therefore, the most significant area of work ACSI does in respect of climate-related risk is supporting members in their stewardship activities.

This includes research, engagement with ASX300 companies and, policy and advocacy work with policy makers, regulators and other industry bodies.

Net zero commitment

ACSI supports the Paris Agreement aim of limiting global warming to 1.5 °C, and well below 2 °C. We have advocated for the development of economy-wide strategies to achieve this, alongside 2030 targets that are aligned to the Paris Agreement objectives. These are imperative to achieving orderly, just, and fair transition for the Australian economy where the transformation sees both the risks managed and the opportunities realised.

ACSI's operational net zero commitment

ACSI's operational emissions footprint is relatively small, with emissions primarily generated from electricity use in one office space at any given time. While our emissions are small, we still think it's important to minimize our footprint. Based on data provided by our landlord, our Scope 1 & 2 emissions for FY23/24 were 7,091 kg/CO2 per sqm, calculated as ACSI's pro rata share of the scope 1 & 2 emissions for our office tenancy.

ACSI requires that the property manager for our office space has disclosed a Paris aligned net zero target for its office portfolio and can demonstrate a pathway for decarbonizing the properties. Based on the targets and activities provided to us by our property manager, ACSI has a corresponding ambition to achieve net zero emissions by 2030 for our Scope 1 and 2 emissions, and a target of 100% renewables for our office space by 2025.

As ACSI's current tenancy is within ISPT, our commitment is reliant upon ISPT's current commitment for decarbonizing its portfolio:

- Climate resilience program and carbon neutral program in place for all new developments and assets.
- Be 100% powered by renewable energy by 2025.
- Office Portfolio average 4.8 star NABERS water rating with a targeted 30% reduction in water usage by 2025.
- Implement a circular economy approach and send zero organic waste from properties to landfill by 2025.
- Generate more carbon offsets than we use by 2025.

With reference to our specific tenancy, the following steps have been taken by ISPT:

- The building has achieved a 5 star NABERS energy rating.
- The building has achieved a 4.5 star NABERS water rating.
- The building has achieved a 6 star NABERS indoor environment rating.
- The building has achieved a 2.5 star NABERS waste rating.
- All base building electricity is 100% renewable and ISPT tracks carbon offsets required until electrification projects can be completed.
- Active Waste Program to audit waste collection program and provide tenants additional training.
- Additional waste streams utilised at site to increase amount of waste that can be diverted from landfill and recycled.

If ACSI's tenancy was to change, we would seek a new property and property manager with a net zero commitment and interim targets to achieve net zero, with due consideration given to the timelines and methodologies in achieving targets.

ACSI's Scope 3 emissions are again relatively small and occur from staff commuting to and from the office and, from time-to-time, ACSI employees undertaking company travel. Most staff use public transport or cycle to work, with a few employees using a standard combustion car to commute to the office. ACSI offsets 100% of airline travel by purchasing carbon offsets on all eligible flights with the airline carriers where possible. While we have a net zero commitment on our scope 1 and 2 emissions, given the size of our emissions profile, our work in relation to scope 3 emissions is largely centred on encouraging public policy changes, and our company engagement program supports emissions reduction programs across the relevant sectors.

Short-, medium- and long-term emissions reduction targets in listed companies:

ACSI seeks to have significant impact in reducing portfolio risk for our member funds and reducing emissions in the real economy through our company and policy engagement activities.

ACSI's climate policy position outlines our expectations for companies facing material climate-related risks, including:

- Disclosing their approach to climate-related risks by adopting the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) risk assessment and reporting framework, which is now embedded in the International Sustainability Standards Board (ISSB) sustainability and climate reporting standards.
- Aligning corporate strategy to the Paris Agreement and the objective of net zero emissions by 2050.
- Setting short-, medium- and long-term emissions-reduction targets that align to the Paris Agreement.
- Analysing and managing physical risks.

Strategy

ACSI's office is located in Melbourne, Australia, and faces physical risks associated with climate change in this region. While ACSI faces limited business specific transition risk as an organisation, we are, like all across the economy, subject to systemic risk and climate change is a core focus of our day-to-day work.

ACSI works to address climate related investment risk as part of its role as an advisor on ESG issues to its clients, many of which are superannuation funds. As such, ACSI identifies risks faced by its superannuation fund members, particularly in their listed company investments. These are described below. Given ACSI's relatively small operations and emissions profile, we focus on the areas where we can have greater influence, including our core role in assisting our members with their stewardship activity.

Climate-related risks and opportunities identified over the short, medium, and long term

ACSI's members invest in multiple asset classes including equities, bonds, infrastructure, and property, both in Australia and overseas. ACSI provides research, engagement and (in some cases) voting research and recommendations in relation to Australian equities and international equities (focusing on the ASX200, with voting advice provided across the ASX300).

There are significant risks to listed companies associated with the transition to a lower carbon economy. As investors, ACSI's members, have a strong interest in managing these risks, as well as in encouraging companies to pursue opportunities associated with this transition.

ACSI has identified those ASX200 companies that face significant transition and physical risks, and targets these companies in engagement, regularly meetings with their directors and executives.

In the past, ACSI undertook a major research project, hiring Vivid Economics, a London-based economics consultancy, to model the resilience of ASX200 companies to Paris-compliant transition scenarios, in line with the recommendations from the TCFD. The research identifies the most at risk sectors and companies and provides detailed information on the source of the risk (including demand destruction, carbon pricing and competition impacts).

In 2022 ACSI commissioned the Climateworks Centre to assess the level of alignment of ASX200 companies' short-, medium- and long-term targets to a 1.5C, Australia-specific scenario, as detailed below.

In 2023 and 2024, ACSI once again produced its annual research report of the climate disclosure of ASX200 companies "Promises, pathways and performance: Climate change disclosure in the ASX200", set out further in the Company Engagement section of this report.

Impact of climate-related risks and opportunities on strategy and financial planning

The identification and management of climate risks across the market through engagement, research and policy advocacy is a core responsibility for ACSI in its role as an ESG advisor to superannuation funds, and therefore has an impact on strategy and our financial decision making. Climate change-related engagement, research and policy aims are included in ACSI's strategic plan, which is approved by the Board. Staff resources are used to engage with ASX200 directors and companies to express expectations around climate related risk. ACSI funds internal and external research on climate change.

Resilience of organisational strategy, taking into consideration different climate-related scenarios

ACSI is not exposed to high levels of organisation specific transition risk, and therefore has not completed scenario analysis related to our organisation specifically. Nonetheless we recognise that our business is subject to the economy-wide risks posed by climate change. In addition, ACSI uses services that are subject to levels of climate related risk, such as our building occupancy. Our lessor - ISPT - has undertaken portfolio scenario planning using a range of climate scenarios across varying timeframes to assess future climate trends. These scenarios were the Intergovernmental Panel on Climate Changes (IPCC) Shared Socioeconomic Pathway 1-2.6 low emissions scenario, SSP22-4.5 medium emissions scenario and SSP5-8.5 high emissions business as usual scenario. Three timeframes were utilized being 2030, 2050 and 2090. As part of ISPT climate resilience program it has also reviewed specific assets with climate projection scenarios, including our current building occupancy. This assessment which details adaptation plans for exposure risks identified has been shared by ISPT for internal ACSI review.

ACSI recognises the importance of scenario analysis for the companies its members invest in, particularly where they are subject to higher exposure to climate risk.

Risk management, metrics and targets

ACSI's operations

Whilst ACSI's exposure to climate risk is low relative to large organisations, we seek to reduce our level of exposure as follows:

- Engaging with our lessor, ISPT to understand and influence decisions about renewable energy choices made in addition to monitoring how they progress against their own targets as noted above.
- Where business related travel is required, making choices about the mode of transport used and where possible offsetting carbon emissions or selecting providers who enable the offset of carbon emissions.
- Proactively looking for opportunities to minimise waste, including:
  - Recycling goods including paper, cardboard, e-waste, and other recyclable goods.
  - Minimising printing by utilising digital options to reduce waste where possible.
- Conveying environmental management expectations of our suppliers through our Supplier Code of Conduct. Suppliers are expected to minimise the environmental impact of their operations and maintain environmentally responsible policies and practices.

  Our standard supply agreements require that suppliers comply with all applicable laws and regulations relating to the environment, including any management, and reporting obligations. Where relevant, suppliers are expected to manage the environmental impact of their operations by:
  - ensuring the safe storage, transportation and disposal of hazardous substances including hazardous waste.
  - maintaining policies and practices for the efficient use of energy, water and natural resource consumption.
  - maintaining policies and practices that reduce the risk of pollution, loss of biodiversity, deforestation, damage to ecosystems and greenhouse gas emissions.

ACSI's work to support members

How ACSI supports members to identify, assess, and manage climate-related risks.

ACSI members are exposed to climate change risks in a range of ways including through their portfolios and the broader economy.

Therefore, the most significant role ACSI plays is to support our members in managing and mitigating climate-related risks through their investment stewardship activities.

ACSI has identified ASX200 companies facing significant transition and physical risks, and targets these companies in engagement, regularly meeting with directors of these companies. Where issues are systemic, ACSI participates in public policy debates to encourage policy settings to better manage the risks and promote the opportunities.

1. Identification and assessment of climate change risks

ACSI assesses climate-related risks by identifying sectors and companies most exposed to physical and transition risks in the ASX200, including broader social implications for the low carbon transition.

Where risks and opportunities are systemic, ACSI identifies and advocates for policies that will better manage climate-related risks for investors.

2. Management of climate-related risks

ACSI responds to climate-related risks through:

- Engaging with priority companies to encourage the companies to take measures or modify behaviours to reduce and manage climate-related risk.
- Undertaking research projects that provide an evidence base for engagement with companies on climate-related risk.
- Undertaking research projects that provide an evidence base for policy change that will reduce climate-related risk for investors.
- Advocating for policies that better support the management of climate-related risk.

3. Reporting progress and prioritising action

ACSI's climate change engagement priority company list is reviewed and updated annually. Where ACSI identifies issues, we engage with the companies throughout the year and track and monitor progress against our defined objectives. ACSI provides semi-annual updates and evaluations to members on whether objectives were or were not met.

Where objectives are not met, ACSI continues to prioritise those issues in company engagements and apply our Climate Change Policy where appropriate.

ACSI monitors policy proposals and developments, and, in conjunction with members, prioritises participation in the policy debates material to long-term investors.

4. Priority company focus

Each year, ACSI chooses a selection of companies with material climate risk issues as engagement priority companies. ACSI aims to both support companies in the low carbon transition and seek meaningful change in investee companies. We set et specifically defined objectives across governance, disclosure, risks, opportunities, metrics, targets, and strategy for target companies, and seek to influence the adoption of better practice.

The impact of ACSI's work in research, engagement, policy, and advocacy:

Research

Report	Objectives	Outcomes
Promises, pathways and performance: Climate change disclosure in the ASX200* Data was collected up to 31 March 2024, with the public report released in July. This annual research report identifies how companies are progressing in climate change management and disclosure across the following indicators: TCFD adoption, net zero emissions commitments, decarbonisation pathways and targets, carbon offsets, transition risk scenario analysis, physical risk assessment and the just transition.	This study highlights examples of better practice reporting and where gaps in reporting remain. It shows how well ASX200 companies are reporting on their climate change approaches and commitments.	ACSI conducts a comprehensive analysis of ASX200 company climate change disclosure. This research informs our engagement to encourage better practices. The research is also used across the market, and, in many cases, has been quoted by organisations seeking a snapshot of market practice in respect of disclosure.

*Click title above or link here to view Climate Change Disclosure Report

Company Engagement

ACSI has been engaging ASX-listed companies on climate change for over a decade, and since 2017 has been explicitly asking for companies to align disclosure to the TCFD framework and integrate climate change considerations into corporate strategy, capital allocation and investment.

Over time, ACSI has strengthened its engagement framework used with companies to understand their approach to managing the climate-related risks and opportunities material to their business, the challenges they face, and to clearly communicate expectations.

ACSI's climate change framework

Where companies face material climate-related risks, ACSI expects companies to:

- Disclose their approach to climate-related risks by adopting the TCFD: Adopt the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) risk assessment and reporting framework.
- Align corporate strategy: Align corporate strategy to the Paris Agreement and the objective of net zero emissions by 2050. Paris-aligned metrics should inform company strategy and be integrated into capital allocation decisions, financial reporting, and audit, and where appropriate, remuneration practices.
- Undertake scenario analysis: Companies should stress-test the resilience of their portfolios and strategy against a range of plausible but divergent climate futures, including a Paris-aligned 1.5°C scenario and physical-risk scenarios based on current warming trajectories.
- Set Paris-aligned emissions targets: Setting short, medium- and long-term emissions-reduction targets that align to the Paris Agreement. In addition to quantitative metrics, targets may include undertaking planned actions, partnerships, research and development, or investment to address risks material to the company.
- Analyse and manage physical risk: Companies should undertake analysis of the physical risks arising for assets within its portfolio. Assessment should be detailed and include asset-level and/or industry-level exposures and resilience plans.
- Align policy and advocacy activity: Companies should ensure their policy and advocacy activity is consistent with the goals of the Paris Agreement, including activity undertaken both directly and via industry associations.
- Plan for just and equitable transitions: Incorporate impacts on employees, communities and other stakeholders into transition strategy and planning.

These minimum expectations also form the basis of the framework against which ACSI analyses each company and its progress.

Further action

Where companies consistently fall short of ACSI expectations, applying the indicators set out in our policy, ACSI may make recommendations to vote against directors of ASX200 companies, on a case-by-case basis.

ACSI voting recommendations focus on the individual directors most accountable for oversight of climate-change related risks, for example company Chairs, and the Chairs of the Risk and Sustainability committees or similar.

As always, ACSI recommendations will be combined with direct company engagement, and seek to take a balanced approach, with the long-term interests of members' beneficiaries paramount.

Support for 'Say on Climate' resolutions

To further support engagement between companies and investors on management of climate-related risk and opportunities for the long-term, ACSI supports the provision of a 'Say on Climate' whereby companies provide investors with an advisory vote on the company's management of climate-related risks and opportunities (using the indicators outlined above). While much of this work is already conducted through engagement between investors and companies, a 'Say on Climate' advisory vote provides further focus, transparency, and accountability.

How we measure and track progress

The broad engagement program aim is to engage with priority companies to encourage those companies to take measures or modify behaviors to reduce and manage climate-related risk. ACSI sets clear and measurable objectives annually with targets taking into account the relevant industry and progress to date. Each calendar year ACSI reports to the Member Advisory Council the progress achieved for each company.

ACSI defines progress by reference to the extent to which target companies make improvement against our objectives.

ACSI's climate change framework above discloses the seven key principles that guide the engagement objectives we set for companies and provides a clear summary of what ACSI expects companies to meet. The exact targets that we identify annually for companies depend on the specific company, industry, and the progress the company has made to date, so the objectives differ for each company.

What progress has ACSI achieved?

In FY24, ACSI conducted 387 engagement meetings with a broad range of ASX300 companies and held another 17 meetings with NGOs to gain insight into their concerns about company activities on a range of ESG topics.

This included 93 meetings with ASX300 companies where climate-related risk was discussed.

As at 30 June 2024, of ACSI's 30 high-risk climate priority companies, 29 compoanies demonstrated progress.

Whilst there are a range of influences on company behaviour, ACSI's engagement and priority areas can influence companies to adopt better practice. During the period, notable improvements in ASX300 companies include:

- ACSI set priority objectives for 30 companies on climate change during FY24. Of these 30 companies, 29 demonstrated progress in their climate strategy, including taking steps such as setting Paris-aligned targets, disclosure of progress against targets in the short, medium, and long term.
- All of ACSI's 30 priority climate companies have now made some form of public net zero ambition or commitment.
- 26 of 30 these priority companies explicitly link executive incentive pay to climate change objectives. This is usually through a climate-related metric within their short-term or long-term incentive structures, or both.
- ACSI research reveals that more than half of ASX200 companies now factor in climate change when determining executive bonuses.
- 15 of the 30 priority companies have set short-term targets specifically linked to emissions reductions in their businesses.
- All priority companies have now set medium-term targets specifically linked to emissions reduction
- 12 of the 30 priority companies have also set other decarbonisation and abatement targets such as targeting 100% renewable energy in their operations.
- Only one priority company has not reported their climate risks and opportunities using the TCFD framework. ACSI continues to engage with companies on the quality and depth of their analysis of material climate risks and opportunities. The TCFD framework has now been subsumed by the International Sustainability Standard Board's (ISSB)'s IFRS S1 and S2 standards, which are likely to become mandatory reporting requirements in the Australian market.

A third of ACSI's 30 climate change priority companies have now offered advisory votes on climate ('Say on Climate' votes). In FY24, there were three 'Say on Climate' votes at ASX companies. ACSI also undertook a detailed review and comparison of the 'big four' Australian banks' current climate policies and targets in FY24 to identify leading practices and areas for improvement. 2024 saw an uplift in each of the banks' climate commitments and policies. ACSI and its members also engaged with a selection of companies in materially exposed industries on just and equitable transition pathways, to encourage companies to have plans and strategies in place for accelerated asset closures for affected workers and communities. ACSI also engages with companies on the circular economy, which we consider an important driver to mitigating climate change risk. In FY24, there were 16 engagements with ASX300 companies where circular economy was discussed. ACSI also set priorities for 12 companies on circular economy during FY24. Of these 12 companies, 10 demonstrated progress in developing and reporting on circular economy strategies (being 83% progress achieved at priority companies).

ACSI's latest research " Promises, pathways and performance: Climate change disclosure in the ASX200" found the following:

Net zero commitments: Large companies leading the way on net zero commitments: 131 ASX200 companies (66%) have made some form of net zero commitment, an 8% increase on last year. Larger listed companies appear to be ahead of smaller competitors, with 94% of ASX50 companies having set a net zero commitment, compared to only 49% of companies in the ASX101-200. This means 82% of the market capitalisation of the ASX200, representing approximately $2.2 trillion, was invested in companies that have set net zero ambitions – mostly by 2050 or before.

Integration of climate considerations into financial statements: 29% of ASX200 assessed (58 companies) disclosed how climate change is considered when evaluating their financial performance and position. Most climate-related financial disclosures are, unsurprisingly, qualitative and focus on the impact of climate change on assumptions used in impairment testing (47 companies), useful lives of assets (13 companies) and provision calculations (20 companies). It is common for companies in materially exposed sectors to consider climate change across multiple financial disclosures.

Physical Risk Disclosure: More companies identifying physical risk: 66% (132 companies) undertook and disclosed analysis of their exposure to physical risks arising from climate change – a 12% increase. Of these, 97 companies disclose a range of acute and chronic risks, however, quality and depth of disclosure remains a challenge for investors seeking to assess these risks.

TCFD Reporting: TCFD framework has become the market standard: 82% of ASX200 companies (163 companies) are reporting against or have committed to report against the TCFD framework. The adoption of TCFD has more than doubled in the past five years, up 120% since 2019. This is critical in preparing for the upcoming mandatory climate reporting requirements, which are likely to incorporate and build on the TCFD framework. The results also show that many companies will need to make significant improvements.

Carbon Prices: Companies continue to factor carbon prices into investment decisions: 21% (41 companies) of the ASX200 disclosed that they use an internal carbon price when making investment and capital decisions – consistent with last year. Only 15% of companies (31) publicly disclosed the value of the carbon price used, with significant variations and ranges used.

Using carbon prices to test business resilience has increased: 35 companies test business resilience by integrating carbon prices into climate scenario analysis or use a carbon price to budget for their carbon offset strategy – a 9% increase from last year.

Offsets: Offsets use and holdings remain opaque: There is a dearth of reporting on carbon offsets use, holdings and quality. ASX200 companies take a range of approaches to offsets, with disclosure varying significantly, for example only 21.5% disclose a reference to a hierarchy. Climate Reporting in ASX200 companies: July 2024

Interim targets: are critical to align to the goals of the Paris Agreement: ASX200 companies have set a range of direct emission reduction targets, but the number of short-term targets (0-5yrs) has decreased year-on-year, from 80 in 2022 to 70 in 2023 – a reduction of 14%. Meanwhile, medium-term targets have marginally improved to 61% of companies. Positively, only 7% (14 companies) now have net zero commitments without any interim targets.

Scope 3 disclosures: increase significantly: the disclosure of strategies and targets to reduce Scope 3 emissions, which can represent a business' largest source of emissions, has increased by 35%. 29% of the ASX200 (58 companies) have set Scope 3 targets. The increase in strategies to reduce Scope 3 emissions is positive, although there remains a way to go for companies in setting clear targets to reduce these emissions.

Science-based target: setting trend is stable: 30% of companies (59) in the ASX200 refer to science-based methodologies in their approach to setting emission reduction targets, including those with partial, verified and accredited targets and companies which disclose their targets are science-based but without accreditation. Of these, only 29 companies have either submitted for verification, or verified, their targets with the Science-based Targets initiative (SBTi).

Corporate Lobbying: Few companies report how corporate lobbying is aligned to climate policy: The alignment of a company's climate views and associations' lobbying positions is considered a good governance measure. Just 10% of companies disclosed an assessment of the alignment of industry associations' climate change advocacy and lobbying with the company's own climate change position. 14 of the 20 companies disclosing this assessment are in high-risk emissions intensive sectors.

Scenario testing: The number of companies undertaking climate scenario testing is stable: 122 companies (61%) of the ASX200 have undertaken and disclose scenario analysis identifying both physical and transitional climate risks, similar to the prior reporting period. A range of scenarios are used, with transparency and comparability an ongoing challenge.

Just Transition reporting increases: 33 companies now reference the need for a just and equitable transition. A further 16 have committed to deliver a just and equitable transition or have disclosed targets to achieve a just transition – predominantly in those sectors most exposed to the transition such as energy and mining.

Policy and advocacy

The risks of climate change are deeply embedded across the financial system and are expected to influence the value of ACSI members' investments. ACSI engages with regulators and policymakers to share its research, expertise on the climate-related risk faced by ASX-listed companies and the consequent investment risks. This work focuses on advocating for a regulatory environment that facilitates increased transparency and greater climate risk mitigation, in the best financial interests of superannuation fund members.

Governments and policymakers will have a vital role in setting a policy framework to facilitate the achievement of the Paris Agreement goal. ACSI has undertaken advocacy work, and engaged with various policy consultations, in relation to:

- The development of pathways to a net-zero emissions economy, sector pathways, including through our submissions to the Climate Change Authority, the Government's Sustainable Finance Strategy, and the Australian carbon credit units (ACCU) framework consultations.
- Encouraging a well-managed transition, including the frameworks, strategy, and resourcing to drive an orderly, just and equitable transition. We welcomed the Australian Government announcement in May 2023 of the establishment of a Net Zero Authority to oversee and drive the transition.
- Continuing to incorporate climate change as a systemic risk in corporate and financial regulation and disclosure frameworks through our support for the implementation of a fit-for-purpose mandatory climate reporting standard that is aligned with International Financial Reporting Standards (IFRS) S2 released by the International Sustainability Standards Board and an appropriate sustainability auditing framework in Australia. We were also part of a joint finance industry statement supporting the passage of the Climate-related Disclosures Bill.
- We welcomed the release of the TNFD reporting recommendations in September 2023. We have also engaged in the Government's consultation on proposed environmental law reforms. This process is ongoing, including on the design of amendments to the *Environmental Protection and Biodiversity Act 1999* (EPBC Act).

ACSI also engages with other organisations working on climate-related risks, to share knowledge and understanding of the issues. For example, this includes the Investor Group on Climate Change (IGCC), Australian Sustainable Finance Institute (ASFI), the Centre for Policy Development (CPD), the Responsible Investment Association of Australasia (RIAA), UN's Principles for Responsible Investment (PRI) and others.

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