Climate Governance Initiative Australia

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Principles for setting climate targets

A guide for Australian boards

AUGUST 2024

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Executive summary

The 10 guiding principles for target setting have been created to help Australian boards to establish climate targets and navigate associated risks effectively. The insurance industry, which is a key 'shock absorber' of climate change, is used as a sectoral case study to illustrate the practical application of the guiding principles. However, this resource is intended to be used by directors and boards across all industries.

TARGET DEVELOPMENT PHASE

1. Collect reliable baseline data
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3. Undertake verification and assurance
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1.0 Introduction to climate targets

1.1 WHAT ARE CLIMATE TARGETS?

Climate targets are specific goals set by organisations to reduce their greenhouse gas emissions and contribute to mitigating climate change. Targets are normally time-bound, such as committing an organisation to achieve set reductions by a certain date.

Target setting involves an organisation developing and adopting a reasonable future position to strive towards, which is most commonly seen in relation to climate transition or net zero ambitions. Targets can apply to all aspects of an organisation or discrete portfolios, and should have regard to the latest climate science and national and international climate commitments (relevant to whether the target is 'science-based' – see Box 1).

Climate targets should also be underpinned by a climate transition plan. The International Sustainability Standards Board (ISSB) Standards (on which the Australian Sustainability Reporting Standards (ASRS) are based) define a climate transition plan as *"an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."*[1]

BOX 1: What is meant by 'science-based' and 'credible' climate targets?

Science-based targets

There is no statutory definition of what 'science-based' means, and it can be contested by stakeholders. However, the **Science-based Targets Initiative (SBTi)** – a well-regarded independent verifier of corporate climate targets defines 'science-based climate targets' as *"targets to mitigate GHG emissions that are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement - to pursue efforts to limit warming to 1.5 degrees celcius."* Further commentary from the SBTi states that *"science-based targets show companies how fast and how much they need to reduce GHG emissions to be in line with the latest climate science."*

Credible targets

Similarly, 'credible' targets are not statutorily defined. Leading frameworks, such as the SBTi, do provide some guidance on their interpretation of what 'credible' means.

According to SBTi's **Corporate Net-Zero Standard**, a credible target would:

- account for emissions across the value chain;
- include achievable, short-term targets as well as a long-term goal;
- limit carbon offsets to no more than 5-10 per cent of emissions; and
- direct any other financing for climate action to projects beyond the value chain.

1 IFRS S2 Appendix A; Draft ASRS 2 Appendix A (ED SR 1).

BOX 2: How is a target different from a goal, aspiration or ambition?

While 'target setting' is the term used to describe the process organisations undertake to articulate a desired future state, the output of this process may be articulated as a 'target', 'goal', 'aspiration' or 'ambition'.

Organisations should avoid using 'climate target' interchangeably with 'aspiration', 'goal' or 'ambition'. This is because, in the absence of shared understanding around the meaning of these terms, there is a risk of exposure to misleading conduct claims (i.e. 'greenwashing', which is shorthand for misleading disclosure of an organisation's environmental credentials).

- **'Climate targets'** should refer only to time-based decarbonisation and commitments which are underpinned by evidence-based transition plans (including expected technical feasibility and resource allocation to achieve the target).
- **'Goals', 'ambitions'** or **'aspirations'** should refer to an intention to achieve an outcome, albeit one which may not have a specific plan of how this outcome will be achieved.

ISSB-based climate reporting requires the disclosure of specific details where an organisation has set 'targets'(as opposed to goals, ambitions or aspirations). However, it is important to note that some overseas regimes such as the US Securities and Exchange Commission have proposed that disclosure rules extend beyond 'targets' and include 'goals'.

Whichever term is used, there is an expectation (from investors and regulators) that a public commitment regarding a desired climate outcome will be underpinned by proper process and diligence. Accordingly, the target setting principles in this resource can be equally applied to a climate goal, aspiration or ambition.

1.2 WHY SET CLIMATE TARGETS?

There are a range of drivers prompting organisations to set climate targets, including strategic alignment, managing risk and identifying opportunities, influence from stakeholders, regulation and market practice. This section outlines some of the factors behind an organisation's decision to set climate targets, which are summarised in **Figure 1**.

FIGURE 1: Factors driving the setting of climate targets

Alignment with strategy

For organisations across many sectors, adapting to the impacts of climate change is central to their long-term viability and success. There is no 'climate strategy' that sits alongside the core organisational strategy – the two co-exist in the same strategy, with climate's prominence depending on the exposure of the organisation to climate risks and opportunities.

Target setting is at the core of organisational strategy and climate transition planning, as the targets demonstrate to the market where the organisation will focus its strategy, resources and capital.

BOX 3: Spotlight on the insurance sector

The insurance sector is a key 'shock absorber' of the financial impacts of the loss and damage attributable to climate change. Insurers directly face the impacts of a changing climate as they protect organisations and households against the physical and financial impacts of worsening extreme weather through insuring and underwriting risk.

There is also a growing consumer, regulatory and political expectation that insurers play a societal role as an environmental steward, whether it be in terms of asset protection (i.e. physical infrastructure and nature), or by 'thinking green' in its products, investments and underwriting approach. A large proportion of Australian insurers have global parent companies and sources of capital outside of Australia. This exposure to global markets creates the expectation for alignment with global insurance / reinsurance methodologies, standards and frameworks, and also exposes Australian insurers to a broader set of stakeholder expectations.

As a result of these factors, responding to the impacts of climate change is central to the strategy for many Australian insurers. The Insurance Council of Australia, as the representative body for Australian general insurers, is focused on supporting its members to set and implement effective climate-related targets that strike an appropriate balance between the ambition to take a leading position on climate change and the risks and challenges involved.

Seizing opportunities

While climate change presents risks to every sector across the global economy, the major changes it is driving also open opportunities for organisations focused on understanding and pursuing them. Using the insurance sector as an example, the impacts of climate change act as a catalyst for product innovation, accelerating the changes in customer behaviour needed to mitigate and reduce the impact of chronic and acute physical climate risks.

For scope 3 emissions targets, where the size of the task may seem too overwhelming to tackle holistically in one step, organisations may choose to initially focus on discrete segments of their value chain. By partnering with specific customers or suppliers and working collaboratively to reduce emissions, they can gain valuable insights that can be leveraged more broadly.

CASE STUDY – PRODUCT INNOVATION IN THE INSURANCE SECTOR

Insurers are finding innovative new ways to stimulate low-carbon choices through their product design. One example is Zurich's Zurich4Power insurance product. The policy provides broad coverage for risks related to the construction, installation, assembly and operation of solar PV panels.

By underwriting risks related to consumer and organisational transition to solar energy, and by de-risking the production and assembly of panels for integrators and manufacturers, this product can accelerate uptake of solar PV panels across the economy. With rooftop solar PV set to continue growing over the coming decade, there is a growing market for this product to tap into.

Risk management

Climate-related targets are often part of a broader climate transition plan that an organisation prepares in order to map a pathway through climate-related risks. Net zero targets, in particular, are commonly supported by a robust transition plan involving extensive data collection and analysis, and the development of decarbonisation plans that are expected to result in the achievement of the targets.

Directors' responsibility for the identification, prioritisation and management of risks is a key part of their oversight obligations. This includes climate-related risks which, broadly, fall within three categories: **physical risks, transition risks** and **liability risks.**

- **Physical risks** arise from the impact of chronic (i.e. gradual shifts in sea levels or average temperatures) and acute (i.e. storms, floods, bushfires) weather events that can have a significant impact on the supply chains, property, equipment and plant assets, and products and services of organisations.
- **Transition risks** arise from the transition away from reliance on fossil fuels and towards a low-carbon economy. These can include changes in regulatory policy and law, technology or customer preferences (e.g. policies on the pricing of emissions and fluctuating pricing of available technologies).
- **Liability risks** arise for financial services entities (i.e. insurers, banks and trustees) that fail to adequately provide for, disclose, address and manage the effects of climate change. Some frameworks view liability risks as a sub-set of transition risks.

Investor and stakeholder pressures

Targets have become a measure against which institutional shareholders, climate activists, customers, suppliers and regulators assess sustainability performance. There has been an increase in stakeholder expectations for organisations to adopt a climate strategy and set climate (particularly net zero) targets, and whether an organisation does so can impact its reputation and access to capital/finance.

Directors' duty to act in the best interests of the organisation includes safeguarding the reputation of the organisation, which encourages directors to take a long-term view of the organisation's best interests (see Section 2 for more detail on this). As such, directors should engage with stakeholders when considering the incorporation of climate targets within overall organisational strategy, noting that there are likely to be differing views amongst the various stakeholders.

This divergence of views and expectations is exacerbated in Australia by the lack of a sustainable finance taxonomy (although one is currently being developed) or another framework that brings consistency in understanding of terms such as 'net zero', 'green' and 'transition'. The federal government's consultation on Australia's sustainable finance strategy at the end of 2023 and release of its Sustainable Finance Roadmap in June 2024 have been welcome steps forward on this front.

BOX 4: Reconciling investor and stakeholder views in a global business

Australian insurers commonly operate in a global market, which means they must contend with both domestic and international stakeholder pressures.

In some jurisdictions, including the US, there is an increasing focus on the 'anti-ESG' movement. This includes, in some cases, the risk of political retribution and litigation for commitments perceived by anti-ESG stakeholders as overreach or anti-competitive. For example, the US Securities and Exchange Commission (SEC) climate reporting rules, passed in March 2024, have been subject to intense scrutiny and litigation by both pro- and anti-ESG factions.

The EU has taken a market-leading approach to climate, setting an ambitious climate agenda and introducing government-led initiatives such as the Taxonomy for Sustainable Activities and the Green Deal. As the largest group of institutional investors in Europe, with over €10 trillion in assets, EU insurers are well-positioned to tangibly advocate for and contribute to the transition.

The Climate Governance Study 2024 details how organisations, particularly listed companies, are finding it challenging to execute climate strategies partly due to diverging stakeholder interests. According to Chapter 3 of the study, published by AICD with Pollination, boards are increasingly faced with tension between short-term financial pressures and building long-term sustainable value.

Market practice

A July 2024 report on ASX200 disclosure practices, by ACSI (Australian Council of Superannuation Investors) indicates that 66 per cent of ASX200 companies have made a net-zero commitment, and 29 per cent of ASX200 companies have disclosed how climate change is considered when evaluating their financial performance and position.[2] Similarly, findings of a report released by Zurich in September 2023 (Zurich Report) found that 73 per cent of the surveyed Australian executives say their organisations have a net-zero transition plan and 70 per cent are already including net-zero targets in their annual reports.

As the weight of numbers continues to shift towards having organisational net-zero commitments, organisations that have been holding back may shift tack.

BOX 5: Competitive advantage or collaboration opportunity?

An effective and efficient climate transition will require widespread 'buy-in' within and between industries, where all levels of the economy work together to address pervasive climate impacts and to scale sustainable practices and policies. In relation to climate strategy and target setting, there is a clear sentiment to allow for inter- and intra-sectoral collaboration in the transition.

In the Zurich Report, the cost and scale of capital expenditure was identified by 50 per cent of respondents as the most important barrier to developing a net-zero plan, with Zurich reporting that businesses, and the public sector will need to work together to reimagine and redesign existing systems in areas like financing and investment.[3]

In July 2024, the Australian Competition and Consumer Commission (ACCC) issued draft guidance for business regarding the application of Australian competition law to sustainability collaborations. The draft guidance includes examples of various types of sustainability collaborations that the ACCC views as having low competition law risk.

2 ACSI (July 2024) **Promises, Pathways & Performance: Climate Change Disclosure in the ASX200** (page 5).
3 Zurich (September 2023) **Accelerating the Climate Transition: Long-term thinking for near-term action.**

Regulatory requirements

The introduction of mandatory climate reporting in Australia, which is expected to commence from 1 January 2025 (provided the Bill passes Parliament and commences by 2 December 2024), will bring target setting and transition planning into sharp focus.

The mandatory climate reporting regime will necessitate the annual disclosure of any targets that exist (including the underlying metrics and assumptions) as part of an organisation's overarching climate plan, and the organisation's approach to the governance, risks and opportunities of climate change.

As part of the mandatory climate reporting regime, organisations are required to make annual discloses within a mandated 'Sustainability Report' forming part of the Annual Report. The content of disclosures is mandated by the ASRS, which are based on a climatised and Australian adaptation of the ISSB's IFRS S1 and S2, and which were still in draft at the time of publishing this resource (draft ASRS). Importantly, the draft ASRS require that organisations disclose climate effects throughout their value chain. This means that organisations which are not 'within scope' of mandatory climate reporting will still likely be subject to information requests from those that are expected to report in compliance with the regime.

Key areas of the draft ASRS:

- **Nature and scope of any climate target**, including whether the target will be an absolute target or an intensity target, the period over which the target applies, the base period from which progress is measured, and the part of the entity to which the target applies (e.g. a specific business/organisational unit or geographical area).
- **Details of the target,** including the existence of any interim targets to support long-term targets; greenhouse gas (GHG) emission details of targets including which GHGs are covered by the target; whether scope 1, 2 and 3 emissions are covered by the target.
- **Reliance on offsets to meet the targets** and details of offset use including type of offset (nature-based or technological carbon removal) and which third-party scheme(s) will verify or certify the offsets.
- **Approach to setting, monitoring progress and reviewing each target**, including how the latest international agreement on climate change (including any jurisdictional commitments) have informed the target, and whether the target and methodology has been validated by a third party.

Directors will be required to sign a Directors' Declaration confirming that the disclosures (including any climate target disclosures) comply with the *Corporations Act 2001* (Cth) (Corporations Act) and draft ASRS. For the first three years of the regime, it is proposed that directors will only need to sign a qualified Directors' Declaration which states that, *"in the directors' opinion, the entity has taken reasonable steps"* to ensure the substantive provisions of the Sustainability Report comply with the draft ASRS and the *Corporations Act*.

Disclosures made in the Sustainability Report are subject to the disclosure and misleading or deceptive conduct laws. That is, any statement made in relation to future matters, which includes climate targets, must be made on reasonable grounds.

To assist organisations in the early years of the regime, it is proposed that a regulator-only enforcement period (Modified liability) will apply to certain 'Protected Statements', in particular scope 3 emissions, scenario analysis and transition plan disclosures.

> For more details on what is proposed under the mandatory climate reporting regime and practical guidance to assist boards prepare, see the Climate Governance Initiative (CGI) Australia **A director's guide to mandatory climate reporting**.

2.0 The interplay between directors' duties and climate-related target setting

Under the *Corporations Act* directors are required to, amongst other things, act with care and diligence (section 180), and act in good faith in the best interests of the organisation and for a proper purpose (section 181).

These are not new duties, but what is required of directors is rising, particularly with respect to acting with care and diligence in the climate context.

2.1 DUTY OF CARE AND DILIGENCE

Climate transition plans and the draft ASRS require organisations to form a view, and take a position, on future events which will require a higher volume and greater complexity of disclosures than typically considered and/or disclosed.

The obvious issue is that no amount of directors' care, skill and diligence can entirely remove the uncertainties related to climate-related risks and opportunities. This is because the shifting policy landscape, emerging technologies, fluctuating market dynamics, scientific understanding and changing societal expectations pose particular challenges for directors.

What is clear however, is that the standard of care required of directors on climate is increasing, commensurate with the extent and materiality of climate related risks. This trend was affirmed in the third **Hutley Opinion**, released in 2021 by barristers Noel Hutley SC and Sebastian Hartford Davis as a supplement to their earlier opinions in **2016** and **2019**. The 2021 Hutley Opinion noted that: *"The standard of care to be exercised by directors with respect to climate change has risen and continues to rise."*[4]

2.2 BEST INTERESTS' DUTY

Directors have a duty to act in the best interests of the organisation – but what does this mean in a climate strategy context?

This duty is not just concerned with the interests of current shareholders – instead, the duty is owed to the organisation and regard should be had to the longer-term interests of the organisation and its reputation.

In 2022, the AICD commissioned **legal advice** from Bret Walker AO SC and Gerald Ng of Counsel on their views on the content of the 'best interests' duty under section 181(1)(a) of the *Corporations Act*.[5] The opinion made clear that the law does not assume shareholder or member interests are best served by ignoring other stakeholders, particularly over the longer term. The interests of customers, employees, suppliers, creditors, Traditional Owners and the environment in which an organisation conducts business are legitimate concerns of directors as they tie back to the long-term interests of the organisation, including its interest in avoiding reputational harm.

Directors need not view their duty to act in the best interests of the organisation as prohibiting the consideration of climate change impacts. Increasingly, the expectation to consider stakeholder interests is crucial to climate strategy and target setting, as near-term must be balanced against longer-term drivers, including community support.

4 Noel Hutley SC and Sebastian Hartford-Davis (April 2021) **'Climate Change and Directors' Duties': Further supplementary memorandum of opinion.**
5 AICD (February 2022) **'The Content of Directors' "Best Interests" Duty.**

3.0 Guiding principles for target setting

The 10 guiding principles for target setting have been developed to empower Australian directors to set climate targets while effectively navigating associated risks (**Figure 2**). They can be divided into the four phases shown:

- development;
- implementation;
- communication; and
- review.

While the phases have been ordered based on their typical sequence, in practice, some phases may run in parallel. This is because target setting is an iterative exercise which may require revisiting steps as new information becomes available and circumstances change over time.

If implemented effectively, these 10 principles can help set climate targets which are aligned with organisational strategy which can mitigate key risks.

To build confidence in their organisation's ability to achieve targets, boards should have oversight of:

- key dependencies and assumptions (such as policy settings);
- climate and decarbonisation scenarios and sectoral pathways;
- capital allocation and investment required; and
- potential trade-offs.

Making enquiries in relation to each of these principles and being satisfied they are being addressed by management will help non-executive directors demonstrate due care and diligence in their oversight of climate targets and climate strategy. **Section 4** of this resource sets out guidance on how to apply the guiding principles.

FIGURE 2: Guiding principles for target setting

TARGET DEVELOPMENT PHASE

1. Collect reliable baseline data
2. Develop targets that meet ambition and align with strategy, while recognising key dependencies e.g. emerging technology
3. Undertake verification and assurance
4. Establish a record-keeping system

TARGET IMPLEMENTATION PHASE

5. Clarify executive accountability
6. Identify and allocate required resourcing
7. Develop an implementation plan

TARGET COMMUNICATION PHASE

8. Communicate targets clearly and consistently
9. Disclose underpinning assumptions, contingencies, uncertainties and risks

TARGET REVIEW PHASE

10. Establish a monitoring system

DEVELOPING TARGETS

Principle 1 – Collect reliable baseline data

To the extent possible, collect high-quality data from internal and external sources to establish the organisational baseline against which realistic targets can be set. This process can also reveal any data gaps that will need to be addressed.

Principle 2 – Develop targets that meet ambition and align with strategy, while recognising key dependencies e.g. emerging technology

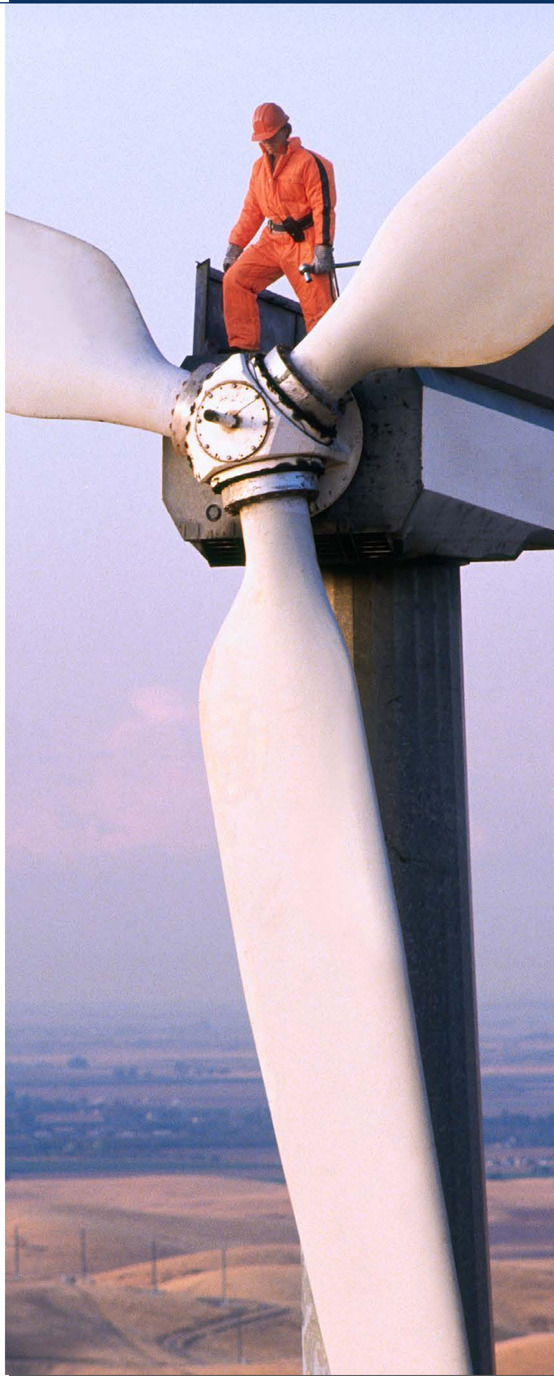
All relevant parts of the organisation (finance, investor relations, sustainability, marketing, legal) should work together to develop a target that meets a level of ambition agreed by the board and management and reflects the resources and technologies available to the organisation. Limit dependence on unknown contingencies (to the extent possible) and explicitly explain the scope and impact of those uncertainties. Also consider how the latest international agreement on climate change has informed the climate target (see Box 1).

Principle 3 – Undertake verification and assurance

Following a process of internal verification, consider proactively engaging with experts to obtain verification (such as by the SBTi) or assurance of headline targets and supporting statements.

Principle 4 – Establish a record-keeping system

Compile and store evidence of the work undertaken across the organisation (including discussions, consideration of trade-offs, contingency assessments and capital and resource allocations).



IMPLEMENTING TARGETS

Principle 5 – Clarify executive accountability

It needs to be made clear who has executive level accountability for driving implementation. Without it, there is a risk of organisational drift and insufficient coordination.

Principle 6 – Identify and allocate required resourcing

Consider the current and future resource allocations (workforce, materials, relationships, financial, products and services) and capability required to meet the targets.

Principle 7 – Develop an implementation plan

An overarching implementation plan should be developed, with subsidiary plans for individual business/organisational lines or regions, as needed. Funding and capital allocation should form part of those plans, not just operational planning and activities.

COMMUNICATING TARGETS

Principle 8 – Communicate targets clearly and consistently

Targets, time frames and their rationale should be clearly communicated. Directors should ask, *"do the disclosures give a clear and credible picture of our targets and how we plan to achieve them? Are all the organisation's climate disclosures across different channels and platforms accurate and consistent?"*

Principle 9 – Disclose underpinning assumptions, contingencies, uncertainties and risks

To mitigate greenwashing risk, communication of climate targets should include explanation of current data and methodology gaps as well as any resulting need for estimation. Specific focus should be given to disclosing reliance on technology, carbon offsets, specific decarbonisation trajectories/pathways and medium- or longer-term targets, which may be particularly uncertain.

REVIEWING TARGETS

Principle 10 – Establish a monitoring system

Develop processes and procedures for the ongoing monitoring and re-testing of targets and underlying assumptions, including regular communication of these activities to the board.

As circumstances change and more information becomes available, it will be necessary to revisit some or all of the previous steps. This is to avoid prior disclosures being potentially misleading and/or breaching continuous disclosure obligations (for listed entities).

4.0 Applying the principles for target setting and the role of directors

While management will take the lead on developing, implementing, communicating and reviewing climate-related targets, directors will need to oversee each stage of the target setting process and make proactive inquiries to satisfy themselves that the process is robust.

This section explains each of the four phases of target setting and includes:

- suggested steps for directors; and
- key questions for directors to ask management.

As noted in **Section 3**, while the phases are set out below in a sequential manner, in practice the different phases will be iterative and may overlap (e.g. the implementation and communication phases may sometimes occur in parallel).

4.1 DEVELOPING TARGETS

Principle 1 – Collect reliable baseline data

> To the extent possible, collect high-quality data from internal and external sources to establish the organisational baseline against which realistic targets can be set. This process can also reveal any data gaps that will need to be addressed.

The starting point for development of any target should be getting a clear understanding of the current position and performance of the organisation.

It can take considerable time to collect and analyse data from internal and external sources. In particular, data quality, availability and accessibility can create significant challenges. In the absence of high-quality, credible data, there will be a need for robust, well-documented and defensible estimation. Organisations will need to rely on data generated and shared by their value chain or third-party data released by government, industry or regulatory bodies.

The need to source, and rely on, value-chain and/or proxy data presents challenges including:

- poor-quality, inaccurate or incomplete data;
- incorrect or inconsistent calculations and methodologies;
- data variance; and
- inconsistent boundaries between organisations within the value chain.

To address these challenges, it will be important for organisations to engage with others within their value chain to clearly set expectations as to the quality and frequency of data reporting.[6] For example, Telstra uses a standard emissions reduction clause in certain supplier contracts, which includes carbon reporting and reduction obligations.

When an organisation is considering its baseline for targets, it may be appropriate to test different inputs or parameters of the data to form the most accurate assessment (e.g. by location, category, asset class).

Measurement inaccuracy and the unavailability of data is a key challenge to establishing baseline data, particularly in relation to scope 3 emissions. It is anticipated that continued technological innovations, including AI, may help organisations to source, track and report data.

6 See AICD (July 2022) **Directors' "best interests" duty in practice.**

CASE STUDY – QBE AND OVERCOMING THE CHALLENGES OF DATA COLLECTION

Insurers' scope 3 emissions constitute the largest portion of an insurer or reinsurer's greenhouse gas emissions footprint but are typically the most complex to measure and address. This is because scope 3 relies on emissions data from others which can present challenges with respect to data availability, accessibility, and quality.

Specifically, scope 3 emissions for the insurance sector span the entirety of the Australian economy, requiring the collection of both upstream and downstream data from third parties. As a result, there are often considerable data gaps which prevent insurers from accurately measuring and reporting scope 3 emissions. Furthermore, where data is available there may be other factors limiting its availability for scope 3 reporting, such as state or territory regulatory prohibitions on sharing data.

QBE is one of Australia's leading providers of insurance to personal customers and businesses. In 2023, they begun a pilot supplier engagement project with 55 strategic suppliers across their global supply chain. Strategic suppliers were selected based on QBE's annual spend and importance to QBE's operations. Details of emissions calculations, target setting and ongoing sustainability initiatives were collected from these suppliers and then the program was extended to 74 more suppliers. Through this process, QBE has identified several emissions reduction opportunities for exploration and are aiming to set supplier-related targets by the end of 2025.

Principle 2 – Develop targets that meet ambition and align with strategy, while recognising key dependencies e.g. emerging technology

All relevant parts of the organisation (finance, investor relations, sustainability, marketing, legal) should work together to develop a target that meets a level of ambition agreed by the board and management and reflects the resources and technologies available to the organisation. Limit dependence on unknown contingencies to the extent possible and explicitly explain the scope and impact of those uncertainties.

All relevant parts of the organisation should be involved in developing a new target, so that they are set at an achievable level and have collective buy-in.

While part of the motivation for setting targets can be to increase the level of ambition across the organisation through setting a 'stretch' goal, targets need to be achievable and have a suitably credible plan or pathway to delivery. Without such plans, the Australian Securities and Investments Commission (ASIC) has made clear that organisations may face greenwashing accusations.[7]

7 ASIC (May 2024) **'Greenwashing: view from the regulator'.**

When setting targets, organisations should also consider how the latest international agreement on climate change, including Australia's climate commitments, have informed the climate target (relevant to whether the target is 'science-based' – see **Box 1**). This disclosure is required under the draft ASRS.

Boards and management teams also need alignment on the level of ambition set for climate targets e.g. does the organisation wish to be seen as market-leading. For benchmarking and strategic alignment purposes, this should include an understanding of how the target and level of ambition sits relative to peers, competitors, and investor expectations.

Executive remuneration and performance frameworks should also be reviewed to support the achievement of the agreed goals.

As targets are forward-looking statements, under Australian law they must be underpinned by reasonable grounds[8] and be verifiable. Unless the statements are supported by reasonable grounds, as judged at the time the statements were made,[9] they will be deemed misleading by law if they are found to be incorrect. This is the case even where they were genuinely believed at the time they were made.[10] They also need to be capable of being communicated in a way that is clear and not misleading.

An organisation does not need to have all the answers about how to achieve its future commitments at the time they are made, but it must:

- at that time, have a genuine intention, formed on reasonable grounds, to pursue strategies and commit resources expected to achieve the outcome; and
- be careful to accurately convey the stage of its progress when such commitments are announced, updated or impacted.

Boards should consider when and how progress towards the targets will be tested and whether there are any exceptions or carve-outs to the overarching targets. Dependence on unknown contingencies should be limited, where possible, and clearly disclosed.

In some cases, such as for those operating in hard-to-abate sectors, it may be difficult to eliminate or reduce dependency on unknown contingencies. For instance, a climate target may be made on the assumption that a particular carbon-mitigating technology is available at scale and at a competitive price within a certain time frame. In such cases, boards should clearly identify these assumptions/dependencies and confirm that management is monitoring for any material change that may require an adjustment to the climate target (**see Principle 10**).

The coverage of set targets (e.g. scope 1, 2 and/or 3 emissions) and any relevant baselines against which progress is measured should be clearly and consistently disclosed.

A target does not need to cover the entirety of an organisation, at least initially. Instead, a starting point for target setting could be the identification of a particular segment (e.g. a specific product or service, asset class, type of emission, geographic location) that could reasonably meet a future target. While it is common for scope 1 and 2 targets to be set on a whole of organisation basis, scope 3 targets are often set on a more limited basis given the challenges involved in collecting accurate baseline data and influencing changes in supplier and/or customer behaviours.

Organisations should consider their entire value chain when setting climate targets.

See our **illustrative example** at the end of this section for how insurers might apply target setting principles to their value chain. But note, the principles can be applied to any organisation, as shown in **Section 4**.

8 Section 728(2) of the *Corporations Act*.

9 *Bathurst Regional Council v Local Government Financial Services Pty Ltd* (No 5) [2012] FCA 1200 at [2827(a)]. See also ASIC (April 2011) **'RG 170 Prospective financial information'.** Note that Regulatory Guides such as RG 170 are not authoritative statements of the law, but they are based on precedent and explain how ASIC interprets the law.

10 *Bonham v Iluka Resources Ltd* [2022] FCA 71. See also ASIC (April 2011) **'RG 170 Prospective financial information'**.

Principle 3 – Undertake verification and assurance

> Following a process of internal verification, consider proactively engaging with experts to obtain verification (such as by the SBTi) or assurance of headline targets and supporting statements. This should follow a process of internal verification.

Climate targets should not be set in isolation. It will be important to develop and maintain an understanding of the evolving market standards and expectations (including comparative market practice) and to proactively seek independent expert advice where necessary to form views on high-risk areas.

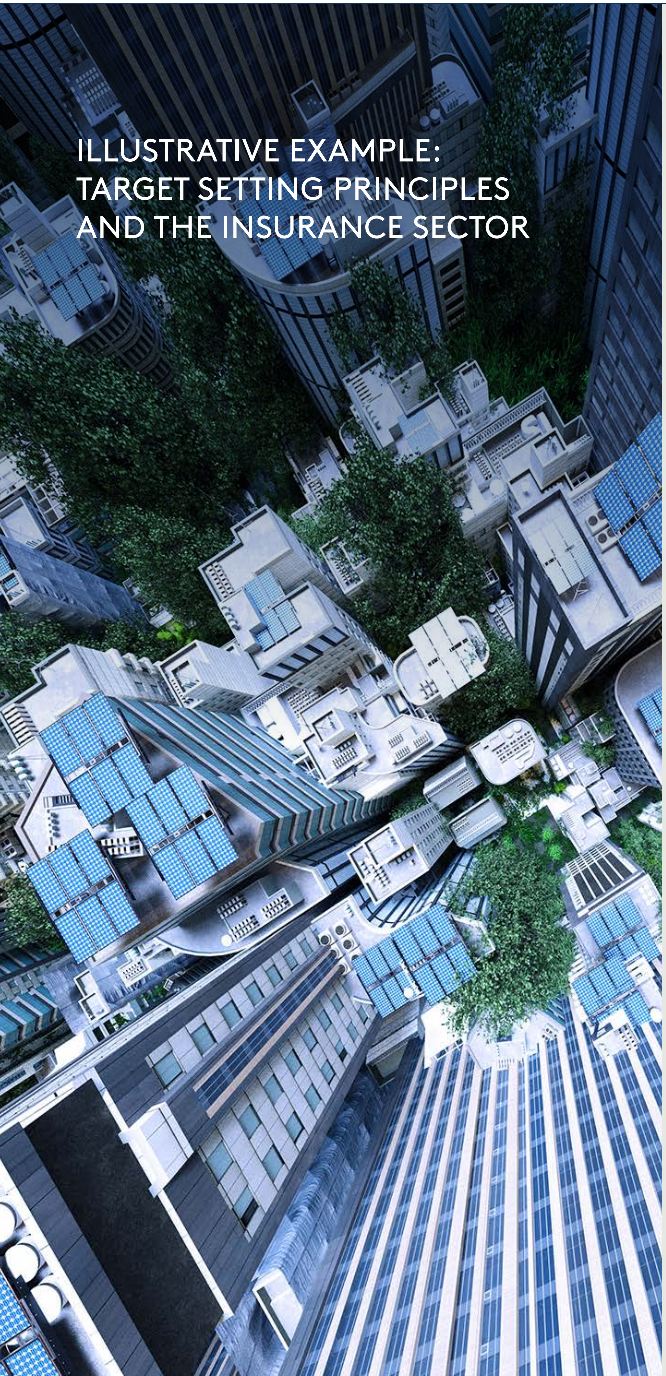
Engagement with experts can be an opportunity to stress-test the status of development and progress against plans. Similarly, external assurance of headline targets and supporting statements provides an independent view that the disclosures (including climate target and transition plan disclosures) appear to be free from material error and comply with the ASRS (once finalised). External audit should follow a robust internal verification and management sign-off process, which may be similar to that undertaken for a prospectus document.

Principle 4 – Establish a record-keeping system

> Compile and store evidence of the work undertaken across the organisation (including discussions, consideration of trade-offs, contingency assessments and capital and resource allocations).

Compiled evidence of the work undertaken across the organisation should be recorded and readily available so that the basis for the targets may be ascertained if needed by regulators or courts.

This information will also need to be readily accessible for the purposes of monitoring progress against targets and re-testing assumptions to get comfortable that there continues to be a reasonable basis for the target. It can be important to implement rules around marking documents that are 'preliminary' or in 'draft', as internal (and where necessary, external) signals to the finality of the thought process.



ILLUSTRATIVE EXAMPLE: TARGET SETTING PRINCIPLES AND THE INSURANCE SECTOR

Organisations should consider their entire value chain when setting climate targets. In the insurance sector,this includes:

- operations (scope 1 and 2);
- investment (scope 3); and
- underwriting (scope 3).

Operational targets

Forming 'reasonable grounds' to underpin operational (scope 1 and 2) targets will require directors to consider how the target aligns to the organisation's broader strategy, planning and resource allocation. Scope 1 includes direct emissions from the activities of an organisation and scope 2 are emissions from electricity that is used for the activities of an organisation.

A practical 'mapping the business' exercise can be a helpful tool to identify the key types of activities, processes and exposures where directors should take climate change into account in their decision making.

The ICA surveyed its members in 2023 and found more than 40 per cent of respondents had set targets to achieve net-zero emissions across their operations by 2030, with a further 15 per cent of members planning to set a target in 2024. Members who had not set a 2030 target were taking steps to reduce operational emissions, with 80 per cent of respondents implementing low emissions solutions such as improving energy efficiency.

Other factors to consider (for operational and other categories of targets) are whether:

- the commercial benefit arising from any asset or decision that underpins the delivery of the target aligns with current regulation, technological capability and societal expectation;
- to the extent possible, the organisation is sufficiently resilient and adaptable to absorb changes in regulation, technology and societal expectations in order to deliver the target in accordance with the proposed timeframe and output; and
- the target is reasonable given the baseline data collection process and outcomes and whether any assumptions, estimations and limitations of the data have been appropriately considered.

ILLUSTRATIVE EXAMPLE (CONT):

Investment targets

These types of targets cover scope 3 emissions, which are indirectly generated by the activities of an organisation, including those attributable to the investment portfolio.

Careful consideration is needed as they are contingent on the actions of third parties and/or the organisation's ability to influence these third parties to achieve the target. In the absence of reasonable grounds to support such expectations for action, organisations may be subject to greenwashing accusations.

Directors, in conjunction with management, should consider and test whether it is reasonable to expect that the organisation will be able to influence investee, supplier and partner behaviour to the extent needed for the achievement of its targets.

Key considerations include:

- the current trajectory of portfolio investees to make climate commitments;
- the ability to influence investees (e.g. based on bargaining power, contractual terms); and
- the mix and capability of investees to adopt relevant commitments and the investors' own ability to execute its plans.

As an example, insurance company AXA released the 8th edition of its Climate and Biodiversity report, setting a target of reducing the carbon footprint of their general account assets by 20 per cent between 2019 and 2025. It has since set a new target of a 50 per cent reduction between 2019 and 2030. Additionally, AXA intends to strengthen its engagement activities and its efforts to finance the transition.

Underwriting targets

To date, there is no standard way to measure and report on the emissions footprint of underwriting portfolios which, like the process of setting investment targets, will require engagement with third parties and portfolio companies to help to develop measurement capabilities.

This means that there needs to be an element of flexibility built into the headline target and the underlying assumptions to recognise the fluctuations in:

- **Understanding and pricing risk** – Risk assessments should be continuously adapted to recognise the novel risks that climate change poses to the delivery of targets and changes to risk profile over time. Approval processes must also be sufficiently robust to allow directors to form a view as to whether adequate due diligence has been taken by a target organisation in order to mitigate (or at least, expose) underwriting risks.
- **Assessing the policyholder's climate risk** – Climate change is increasingly important when it comes to obtaining insurance and the underwriting process. As well as assessing a policyholder's level of physical risk from climate change, insurers may also ask questions about a policyholder's climate credentials, strategies and reporting as they increasingly focus on the emissions footprint of underwriting portfolios. This may affect the level and type of cover available to the policyholder. For example, there is increasingly a reduction in risk appetite across insurers in relation to emissions-intensive organisations as many insurance underwriters have committed to net-zero underwriting by 2050. As a result, policyholders with better climate credentials may find they are in a stronger position when buying insurance.

There are other strategies that can help to form reasonable grounds for targets including the use of global standards (such as those developed by the Partnership for Carbon Accounting Financials (PCAF) for measuring and disclosing greenhouse gas emissions associated with underwriting portfolios).

Developing targets – Key questions for directors to ask management

UNDERLYING DATA

- How, over what period, and on what basis was the data collected?
- Are there any gaps in our information?
- Are we proactively engaging with, and setting expectations for, our third-party sources (e.g. customers and suppliers in our value chain)?

METHODOLOGY

- What methodology was used? Have we disclosed this in our reporting?
- On what basis was this particular methodology selected?
- To what extent would the targets materially differ if another methodology was used?
- How are we tracking that this methodology remains the most accurate and current?

ASSUMPTIONS AND UNCERTAINTIES

- What assumptions and judgements is the delivery of this target reliant upon? Have we clearly set these out?
- How, and to what extent, have we factored in contingencies, estimations and uncertainties?
- What sensitivity analysis has been performed?
- Are we using offsets to help reach our climate targets? If so, have we undertaken due diligence on the quality and type of offsets?

ALIGNMENT

- To what extent do we think the targets are aligned with our existing risk exposure and strategy?
- What changes will need to occur for the targets to be met?
- What trade-offs are involved in adopting the targets (e.g. with respect to price or costs) and have we communicated these with key stakeholders?
- Have we considered how the latest international agreement on climate change, including Australia's climate commitments, have informed the climate targets?

STAKEHOLDER ENGAGEMENT AND MARKET DYNAMICS

- Have we engaged the required experts (e.g. subject matter experts, assurers)?
- Have we been accurate in our portrayal of organisational plans, capabilities, and strategies to inform opinions?
- Have we engaged with relevant stakeholders when setting the targets?
- How do our targets compare with peers and competitors?

DOCUMENTS AND RECORDS

- Has the decision-making of the board, and management, informing the targets been documented?

4.2 IMPLEMENTING TARGETS

Principle 5 – Clarify executive accountability

> It needs to be made clear who has executive level accountability for driving implementation. Without it, there is a risk of organisational drift and insufficient coordination.

In order for targets to be effectively implemented, it must be clear who has management level accountability for driving implementation across the organisation. For some targets (particularly those relating to a discrete part of the organisation), there may be a single accountable executive but for organisation-wide targets, the reality is that accountability will be spread across a number of senior executives and their teams.

Executives need to be clear on who has accountability, and then this needs to be driven down through the organisation and reflected in the development of implementation plans (see Principle 7).

Where there is shared accountability, thought needs to be given to establishing effective information flows to support board reporting.

For the purposes of external sustainability reports, the CFO's team may take the lead but the ongoing operational reporting to the board on climate performance against targets can be the responsibility of various business/organisational segments depending on the governance structure of the organisation.

Directors consulted for the **Climate Governance Study 2024** found that CFOs and finance teams were increasingly valuable contributors to sustainability reporting.

Principle 6 – Identify and allocate required resourcing

> Consider the current and future resource allocations (workforce, materials, relationships, financial, products and services) and capability required to meet the targets.

The implementation phase will require dedicated capital, resources and prioritisation. The capabilities required to make progress will also require consideration – does the organisation have the personnel, product and service capabilities to deliver? Organisations will need to determine what external expertise and/or internal upskilling will be required.

The creation of robust and detailed budgets and forecasts required to achieve targets should be given strategic organisational priority. There will inevitably be trade-offs involved in prioritising achievement of climate targets over other business/organisational activities, and directors should inform themselves and stakeholders of those trade-offs and satisfy themselves that appropriate resources are being allocated towards achievement of targets. In the **Climate Governance Study 2024**, many directors noted the importance of the board in pursuing long-term strategy, often in the face of short-term pressures from stakeholders.

Principle 7 – Develop an implementation plan

> An overarching implementation plan should be developed, with supporting plans for individual business lines or regions, as needed. Funding and capital allocation should form part of those plans, not just operational planning and activities.

Once targets have been developed, the next phase requires organisations to operationalise and integrate the targets into the broader organisational strategy and practices.

To avoid a gap between ambition and action, this integration should become a whole-of-organisation focus. Progress against the organisational climate targets requires buy-in from departments across the organisation, from front-line operational roles to functional roles in procurement, risk and finance teams.

Embedding climate targets internally involves:

- setting interim targets and timelines;
- delineating clear responsibilities and delegations;
- incorporating internal and external feedback channels; and
- establishing systems and metrics to monitor progress.

While directors will not typically be involved in these activities, they will need to satisfy themselves that appropriate integration steps are in place to monitor progress.

Engagement will also be required with external stakeholders. In some cases, there will be necessary steps to proactively influence the behaviours and actions of those external stakeholders. This will be particularly important in regard to scope 3 targets where the organisation will be relying on the actions of others.

For more information on stakeholder engagement, see the AICD's guide **Elevating stakeholders voices to the board**.

CASE STUDY – DEVELOPING CAPABILITIES IN NEW AND GROWING LOW-EMISSIONS INDUSTRIES

If we take a closer look at Australia's renewable energy sector, Australian insurers will have to build their understanding of a multitude of new claims risks to effectively underwrite the sector, including solar and offshore wind energy projects. Experienced peers in more well-developed offshore wind markets suggest that insurers can:

- build a comprehensive array of third-party data sources to understand the risk profile of offshore wind projects, including environmental, location, and sector specific data;
- inform the design and development of pricing models by engaging end-users in interviews, thought workshops, and usability testing;
- establish a standard underwriting approach that simplifies critical underwriting decisions – routinely test and update this approach through file review and historical analyses; and
- develop talent acquisition and upskilling strategies to recruit and train specialised analytics personnel who can increase expertise in underwriting offshore wind.

QBE Australia Pacific has launched insurance for renewable energy projects such as solar and wind farms within Australia, to support new and existing energy customers as the transition to lower carbon energy accelerates. The new proposition offers 'cradle to grave' coverage across a project's lifecycle, from construction through to operation and decommissioning.

Implementing targets – Key questions for directors to ask management

TARGET IMPLEMENTATION

- Have we developed implementation plans to support our targets?
- Who has executive level accountability for delivering on the targets?
- What feedback channels and systems do we have in place to monitor our progress against targets?

ADEQUACY OF RESOURCING

- What resources have we allocated to support our targets?
- Is there additional capability that we need to build within the organisation or tap into externally?
- What are the trade-offs associated with diverting resources towards achieving our climate targets?

SCOPE OF CONTROL AND INFLUENCE

- Which stakeholders do we need to influence to achieve our climate targets?
- What steps are we taking to exert influence (e.g. through contracting and procurement processes)?
- How are we balancing our desire to make progress on climate risks and opportunities against other value chain priorities (e.g. responsible sourcing)?

4.3 COMMUNICATING TARGETS

Principle 8 – Communicate targets clearly and consistently

> Targets, timeframes and their rationale should be clearly communicated. Directors should ask, *"do the disclosures give a clear and credible picture of our targets and how we plan to achieve them? Are all the organisation's climate disclosures across different channels and platforms accurate and consistent?"*

Targets, timeframes and their rationale should be clearly communicated. Directors should ask themselves the overarching questions above, to satisfy themselves that any planned disclosures give a clear and credible picture of the organisation's targets and plans to achieve them.

Disclosures should identify and explain current data and methodology gaps (and any resulting need for estimation) to present a fair depiction. These will also be important to mitigate risks of claims of misleading and deceptive conduct by misstatement or omission.

Directors need to be mindful of the legal risks that can arise from the communication of targets. Unlike some other comparable jurisdictions (e.g. US), in Australia there is no 'safe harbour' defence for forward-looking statements.[11]

This means that once a statement is no longer (or was never) supported by reasonable grounds, it will be considered misleading by law if it later turns out to be incorrect.[12] There is yet to be any Australian case law that considers what 'reasonable grounds' requires in the climate context.

'Greenwashing' occurs when a public disclosure (e.g. an advertisement, report or website) includes environmental, sustainable or ethical credentials and either:

- the disclosure does not have a reasonable basis; or
- what once may have been a reasonable basis for a certain disclosure is no longer materially accurate, and the organisation has failed to publicly correct its initial disclosure.

Australian regulators (i.e. ASIC, ACCC, APRA and Ad Standards) have prioritised the scrutiny of organisations' climate disclosures and where deemed appropriate, have investigated instances of greenwashing. Recent regulatory enforcement actions are a reminder of the importance of carefully considering the language used in any external (and internal) disclosure of targets, progress and market updates more generally.

ASIC has also provided some guidance on what it considers greenwashing in **ASIC INFO sheet 271**.

11 **HSF Legal advice** commissioned by the AICD (April 2023)
12 Refer to ASIC (April 2011) **'RG 170 Prospective financial information'.** *Bonham v Iluka Resources Ltd* [2022] FCA 71 [668].

In addition to active regulatory monitoring and enforcement of potential greenwashing[13], private litigants (and environmental activist groups in particular) are commencing proceedings against organisations for alleged greenwashing in their public disclosures.

It is critical that the full spectrum of internal and external messaging is accurate, honest and consistent in the portrayal of the firm's sustainability plans and credentials. This will require the various teams within an organisation (i.e. finance, marketing and communications, investor relations, sustainability and legal) to collaborate and cross-check that any external messaging accurately reflects internal understanding and framing.

While most organisations have sufficient rigour around their headline reporting, a consistent approach needs to be applied across all communication channels including investor briefings, website content, advertisements, social media and marketing materials.

13 For a summary of ASIC's regulatory interventions made in the period 1 July 2022 to 31 March 2023, please refer to **ASIC Report 763: ASIC's recent greenwashing interventions.**

Messaging needs to be considered as a whole picture:

- Is there imagery or graphics? What impression does it convey in its entirety?
- Is the language simple or complex?
- Can a glossary be included to retain control over the meaning attributed to various phrases and common terminology?

Many organisations are now using pre-agreed 'messaging houses', which is a framework to help align internal and external messaging of key organisational positions and targets to mitigate greenwashing risks.

Principle 9 – Disclose underpinning assumptions, contingencies, uncertainties and risks

> To mitigate greenwashing risk, communication of climate targets should include explanation of current data and methodology gaps, as well as any resulting need for estimation.

External communication of targets and progress updates creates legal risks where the disclosure fails to accurately convey the level of progress or changes in underlying assumptions. Any 'headline statement' or high-level disclosure must be appropriately substantiated and where necessary, qualified.

Communications should cover the full story – from devising the targets to delivering on the targets – as any inability to fulfil or revise the strategy will give rise to the risk of liability for misleading and deceptive conduct. Specific areas of caution include:

- transition plans that rely on emerging technologies, such as carbon capture and storage, and/or carbon offsets to reach announced targets; and
- disclosure and framing of medium to longer term targets, given the greater uncertainty surrounding them.

BOX 6: REGULATORY GUIDANCE FOR ENVIRONMENTAL CLAIMS

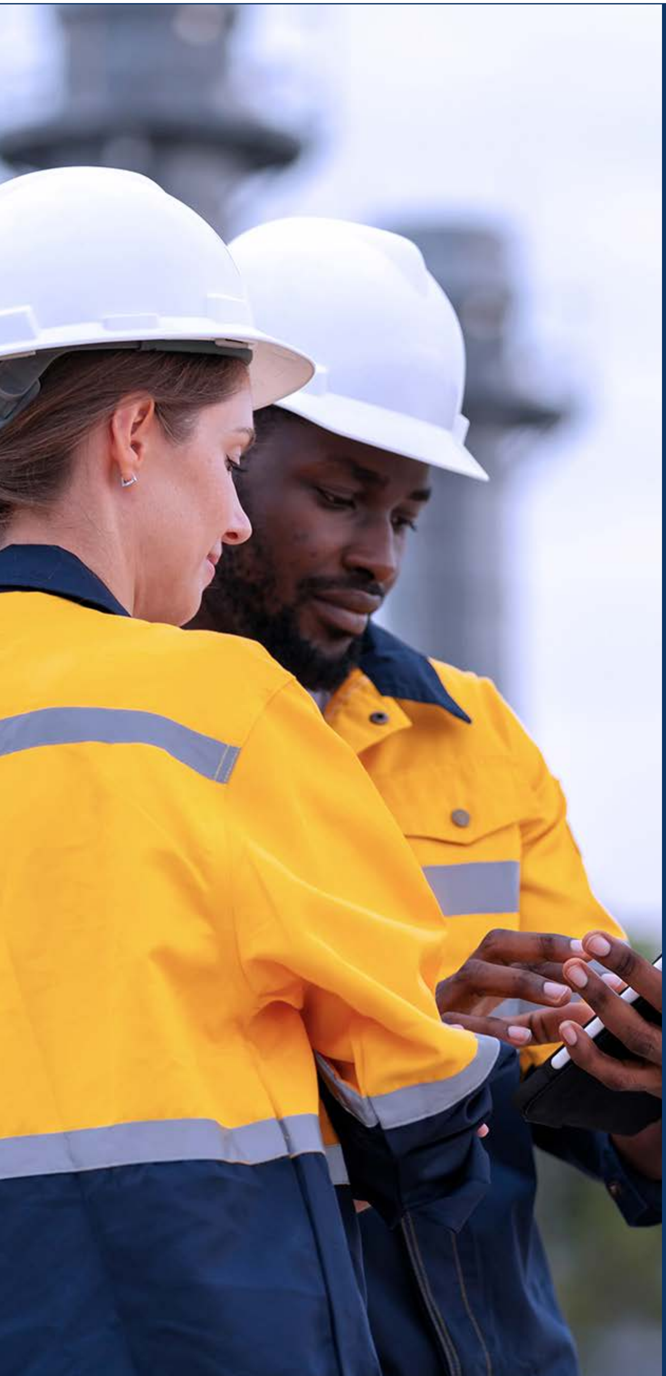
In June 2022, ASIC issued **Information Sheet 271** (INFO 271). While the guidance focused on 'sustainably-labelled' financial products or investment strategies, the principles articulated also apply more broadly. The guidance suggests that those making sustainability representations ask themselves the following questions:

- Is the product true to [the sustainability] label?
- Has vague terminology been used?
- Have any qualifications, assumptions or exclusions been adequately explained?
- Have sustainability metrics been adequately explained?
- Are there reasonable grounds for the setting of a sustainability target?
- Has the entity explained how it will measure and achieve its target?

On 12 December 2023, the ACCC released its finalised **guidance on environmental and sustainability claims** for businesses. The guidance sets out the following eight principles for making trustworthy environmental claims about a business' environmental impact:

- make accurate and truthful claims;
- have evidence to back up your claims;
- do not hide or omit important information;
- explain any conditions or qualifications on your claims;
- avoid broad and unqualified claims;
- use clear and easy to understand language;
- visual elements should not give the wrong impression; and
- be direct and open about your sustainability transition.

As a growing number of businesses and organisations are making environmental claims about their products, services and operations, the guidance is intended to help prevent both intentional and inadvertent greenwashing by providing standards the ACCC deems to be good practice.



Communicating targets – Key questions for directors to ask management

BALANCED DISCLOSURE

- Do the planned disclosures give a clear and credible picture of our targets and how we plan to achieve them?
- Have we avoided boilerplate disclosures?
- Have we refrained from exaggeration, hyperbole, or overstating climate resilience?
- Have we made sure any uncertainties, assumptions, and judgments underpinning our targets are made?
- Have we given careful consideration to our reliance on emerging technology and carbon credits, while adhering to the minimum requirements of the ASRS?

CONSISTENT DISCLOSURES

- Are disclosures of targets and related progress accurate and consistent across the annual reporting suite, website publications, investor day presentations, and other ad hoc disclosures?
- What systems and processes are in place to ensure consistency across communication channels?

TARGETED ENGAGEMENT

- Who are the key investors and other stakeholders that need to understand our targets?
- How do we plan to engage with them?
- What are their expectations?

COMPLIANT DISCLOSURES

- Have we made all disclosures required under the draft ASRS?
- Have we explored external assurance options?

4.4 REVIEWING PROGRESS

Principle 10 – Establish a monitoring system

> Develop processes and procedures for the ongoing monitoring and re-testing of targets and underlying assumptions, including regular communication of these activities to the board.

As circumstances change and more information becomes available, it will be necessary to revisit some or all of the previous principles. This is to avoid prior disclosures being potentially misleading and/or breaching continuous disclosure obligations (for listed entities).

Organisations will need to implement an oversight system to enable adequate monitoring of the targets themselves and the progress required to meet them. This monitoring system should:

- regularly test and review mandatory and voluntary disclosures to check that the disclosures remain reasonable and accurate in the current context of the organisation and the broader market;
- embed climate metrics and targets into relevant remuneration frameworks;
- establish chains of communication and set clear expectations as to what, when, how and from whom information is fed through to the board and disclosed to the market;
- take appropriate expert advice on climate risk, evaluate the advice and check the targets and underlying assumptions remain reasonable on the basis of conclusions arising from it;
- incorporate the latest policy and regulatory developments across relevant climate and sustainability-related areas and provide periodic updates on stakeholder expectations; and
- consider the role of the internal audit function.

Any material change in circumstances (internal or external to the organisation) should prompt consideration of whether the announced target needs to be revised and, if so, how that is conveyed.

In this sense, the target setting process will almost certainly be an iterative one, with the need to loop back to earlier phases of the cycle where new information comes to hand to ensure that the target remains appropriate. It might be that the change in circumstance simply requires a shift in the implementation approach within the organisation or an increased allocation of capital, however in some instances the target itself might need to be changed or withdrawn.

Leaving an inaccurate disclosure in the market risks being misleading and, for listed entities, could trigger a breach of continuous disclosure obligations.

How updated target disclosures will be communicated needs to be carefully thought through as it may lead to regulator, stakeholder and/or investor scrutiny of the original disclosures. This makes the preparatory phases described in this resource all the more important, so that the organisation can show it took appropriate steps.

Reviewing targets – Key questions for directors to ask management

INTEGRATED MONITORING SYSTEM

- Do we have a well-established system to monitor the 'lifecycle' of the targets (including the underlying data, assumptions, contingencies, and interim targets)?
- Have we explained the assumptions, difficulties, and trade-offs in decision-making (not just the positives)?

EXTERNAL INPUTS

- Is our organisation sufficiently attuned to external sources of information?
- Are these external sources linked to our assessment of whether a target remains reasonable?

REPORTING THE BOARD

- What is the agreed cadence of reporting?
- Are we engaging with the responsible executives?
- Does a particular board committee (e.g. sustainability) need closer oversight and engagement with management?

REVISED TARGETS

- How will we publicly explain the need for a revised target?
- Are we prepared to answer questions from media, regulators, and investors?
- What legal exposure do we face?

5.0 Summary of key questions for directors to ask management

Developing targets

UNDERLYING DATA

- How, over what period, and on what basis was the data collected?
- Are there any gaps in our information?
- Are we proactively engaging with, and setting expectations for, our third-party sources (e.g. customers and suppliers in our value chain)?

METHODOLOGY

- What methodology was used? Have we disclosed this in our reporting?
- On what basis was this particular methodology selected?
- To what extent would the targets materially differ if another methodology were used?
- How are we tracking that this methodology remains the most accurate and current?

ASSUMPTIONS AND UNCERTAINTIES

- What assumptions and judgements is the delivery of this target reliant upon? Have we clearly set these out?
- How, and to what extent, have we factored in contingencies, estimations and uncertainties?
- What sensitivity analysis has been performed?
- Are we using offsets to help reach our climate targets? If so, have we undertaken due diligence on the quality and type of offsets?

ALIGNMENT

- To what extent do we think the targets are aligned with our existing risk exposure and strategy?
- What changes will need to occur for the targets to be met?
- What trade-offs are involved in adopting the targets (e.g. with respect to price or costs) and have we communicated these with key stakeholders?
- Have we considered how the latest international agreement on climate change, including Australia's climate commitments, have informed the climate targets?

STAKEHOLDER ENGAGEMENT AND MARKET DYNAMICS

- Have we engaged the required experts (e.g. subject matter experts, assurers)?
- Have we been accurate in our portrayal of business/organisational plans, capabilities, and strategies to inform opinions?
- Have we engaged with relevant stakeholders when setting the targets?
- How do our targets compare with peers and competitors?

DOCUMENTS AND RECORDS

- Has the decision-making of the board, and management, informing the targets been documented?

Implementing targets

TARGET IMPLEMENTATION

- Have we developed implementation plans to support our targets?
- Who has management accountability for delivering on the targets?
- What feedback channels and systems do we have in place to monitor our progress against targets?

ADEQUACY OF RESOURCING

- What resources have we allocated to support our targets?
- Is there additional capability that we need to build within the business or tap into externally?
- What are the trade-offs associated with diverting resources towards achieving our climate targets?

SCOPE OF CONTROL AND INFLUENCE

- Which stakeholders do we need to influence to achieve our climate targets?
- What steps are we taking to exert influence (e.g. through contracting and procurement processes)?
- How are we balancing our desire to make progress on climate risks and opportunities against other value chain priorities (e.g. responsible sourcing)?

Communicating targets

BALANCED DISCLOSURES

- Do the planned disclosures give a clear and credible picture of our targets and how we plan to achieve them?
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CONSISTENT DISCLOSURES

- Are disclosures of targets and related progress accurate and consistent across the annual reporting suite, website publications, investor day presentations, and other ad hoc disclosures?
- What systems and processes are in place to ensure consistency across communication channels?

TARGETED ENGAGEMENT

- Who are the key investors and other stakeholders that need to understand our targets?
- How do we plan to engage with them?
- What are their expectations?

COMPLIANT DISCLOSURES

- Have we made all disclosures required under the draft Australian Sustainability Reporting Standards (draft ASRS)?
- Have we explored external assurance options?

Reviewing targets

INTEGRATED MONITORING SYSTEM

- Do we have a well-established system to monitor the 'lifecycle' of the targets (including the underlying data, assumptions, contingencies, and interim targets)?

EXTERNAL INPUTS

- Is our organisation sufficiently attuned to external sources of information?
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REPORTING TO THE BOARD

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REVISED TARGETS

- How will we publicly explain the need for a revised target?
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- What legal exposure do we face?

Acknowledgements

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ABOUT AICD

The Australian Institute of Company Directors (AICD) is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership of over 53,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD hosts the Australian chapter of the Climate Governance Initiative, a global network which supports directors in meeting the challenges and opportunities of governing climate change risk. As part of this network, the AICD engages and educates the Australian director community, informed by the best possible advice and practitioners in the field of climate governance.

ABOUT INSURANCE COUNCIL OF AUSTRALIA

The Insurance Council of Australia (ICA) is the representative body for the general insurance sector of Australia. General insurance has a critical role in the economy, insulating individuals and businesses from the financial impact of loss or damage to their insured assets. The ICA's work with its members, consumer groups and all levels of government serves to support consumers and communities when they need it most. ICA members represent approximately 90 per cent of private sector general insurers, spanning both insurers and reinsurers.

The ICA is committed to shaping positive outcomes for our members, our people, and our communities by supporting fair policy outcomes, effectively engaging members, and purposefully advocating on behalf of its members. The ICA believes an insurable Australia is a resilient Australia, and its purpose is to be the voice of a resilient Australia.

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