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In June 2017 the industry-led Task Force on Climate-related Financial Disclosures (TCFD), set up by the Financial Stability Board (FSB), finalised its Recommendations on financial climate risk disclosures. The Recommendations aim to improve organisational understanding on the impact of climate risks and reduce the risk of a systemic financial shock on the economy, due to climate change. This report provides an annual snapshot on the uptake of the Recommendations across highly impacted sectors in Australia.

The TCFD Recommendations address the challenge for investors, creditors, and underwriters to consider a company's existing climate impact disclosures in their financial decision-making, identifying a lack of a coherent financial reporting framework. They defined climate impacts in two distinct categories, which should both be addressed:

- **Transition impacts**: reflect the risks and opportunities associated with changes in the economy, including growth impacts, sector re-weighting, and other macro-economic factors.
- **Physical impacts**: reflect the changes in the physical climate (e.g., altered rainfall amounts, intensities and timing) that may impact future business activities.

The TCFD also provides specific guidance for certain higher risk sectors in both the financial sector (e.g., banks, insurance companies, asset owners and assets managers) and other sectors (e.g., energy, transportation, material and buildings, agriculture, and food and forest products).

In Australia, the adoption of the TCFD Recommendations is currently voluntary for all entities, however pressure from different stakeholder groups, including investors and regulators, has driven early uptake on the Recommendations for the 2016-17 reporting period. For 2017-18, we have seen an increase in stakeholder activism that has driven listed companies operating in high risk sectors to pay closer attention to their disclosures on climate change and climate risks and familiarise themselves with the TCFD Recommendations.

This report assessed 124 ASX200 companies', and 20 Superannuation Funds', publically-available information against the specific reporting aspects identified by the TCFD, as at the end of March 2018.

This report analyses current corporate disclosures in Australia to provide a snapshot of the coverage and quality of reporting on the TCFD Recommendations in high-risk sectors. The purpose of this report is to provide companies with an understanding of the current state of reporting and provide insights into areas of improvement across the different sectors.

“Our 2017 ESG Investor Survey noted that the gap between what is expected by investors and how companies respond is considerably smaller in countries like Australia compare with EMEIA, Americas and Asia-Pacific. There is a real opportunity for the Australian business community to lead the way in the quality and coverage of climate-related financial disclosures.”

**Mathew Nelson, Partner**
GLocal Leader, Climate Change and Sustainability Services, EY Australia
Take-up of the RTCFD Recommendations by companies is being driven by both external and internal stakeholders. The rationale for companies adopting the recommendation varies between the stakeholder groups.

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Drivers</th>
<th>Actions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Investors</td>
<td>Concern about long-term value of investments</td>
<td>Stakeholder Resolutions</td>
<td>A number of companies globally have had shareholder resolutions requesting them to report on the impacts of a two degree economy on the business including BP, ExxonMobil, QBE, Rio Tinto, Shell, Statoil.</td>
</tr>
<tr>
<td></td>
<td>Reputational concerns</td>
<td>Divestment</td>
<td>The world’s largest sovereign wealth fund (Norges Bank) divested from mining and power generation companies that derive 30% or more of their income or power from thermal coal. In 2017, the Bank has also proposed the removal of oil and gas stocks to avoid exposure to long-term asset commodity prices with volatility from climate risk.</td>
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<tr>
<td></td>
<td></td>
<td>Direct engagement with management</td>
<td>Blackrock, currently the world’s largest asset manager, has listed climate risk disclosure as one of its key engagement priorities in 2017/18: “In our view, the TCFD Recommendations, which include sector-specific supplemental guidance, provide a relevant roadmap for companies. Over the course of the coming year, we will engage companies most exposed to climate risk to understand their views on the TCFD Recommendations and to encourage them to consider using this reporting framework as it is finalized and subsequently evolves over time.”</td>
</tr>
<tr>
<td>Others</td>
<td>Reduce exposure of civil society to negative financial impacts relating to climate risk</td>
<td>Reports encouraging adoption</td>
<td>The Australian Prudential Regulation Authority (APRA) have publicly spoken about the systemic economic risks climate change will cause and highlighted they will increase their focus on the implications of scenario analysis. In 2017, the Australian Securities &amp; Investments Commission’s (ASIC) Report 539 explicitly discussed climate risk and states “Companies and their boards should proactively consider reporting on climate risk as part of their annual reports, particularly within their operating and financial review.”</td>
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<tr>
<td></td>
<td></td>
<td>Legislation</td>
<td>The Senate Committee hearing on climate risk disclosure questioned the need for additional regulatory guidance driving momentum for more detailed regulatory guidance on carbon risk disclosure.</td>
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<tr>
<td></td>
<td></td>
<td>Legal</td>
<td>Legal actions have been taken by shareholders against companies for not disclosing a true and fair view of their financial statements by not including climate change risk disclosures in their annual report. More legal action of a similar nature is expected as the impacts from climate change increase.</td>
</tr>
<tr>
<td>Internal Company Directors</td>
<td>Personal liability if climate risk not addressed</td>
<td>Legal opinions on Director duties</td>
<td>An influential legal opinion prepared by Noel Hutley QC on Climate Change and Director Duties, commissioned by the Centre of Policy Development, concluded that Australian company directors “who fail to consider ‘climate change risks’ now could be found liable for breaching their duty of care and diligence in the future”. This has made company directors more aware of the potential personal liabilities of not addressing climate risk.</td>
</tr>
<tr>
<td>Strategy team</td>
<td>Maintaining long-term business growth</td>
<td>Developing long-term business plans that include climate risk</td>
<td>A number of companies have released Climate Change Position Statements or equivalent. These generally outline the company’s view on climate change (generally whether they are aligning their business strategy to a two degree outcome or not) and then discuss the implications and action plan to integrate this position into their long-term business plans.</td>
</tr>
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</table>

“It will become difficult for a company director to escape liability for a foreseeable risk that could materially impact the business on the basis of personal belief or political uncertainty on carbon policy changes in the future. The earlier companies embark into this journey, the better. Assessing climate-related risks and opportunities provides a platform that helps directors to familiarise themselves with the TCFD Recommendations and engage with investors and shareholders on companies’ climate strategy and targets.”

Fiona Hancock, Senior Manager
Climate Change and Sustainability Services, EY Australia
Methodology

ASX200 companies and the 20 largest superannuation funds were filtered against sectors identified by the TCFD as most exposed to climate related risks. 76 of the ASX200 companies were excluded as they did not fall within these sectors. Seven companies assessed in 2018 were not scored in 2017 due to their relative position in the ASX200 at the time of publication.

A total of 144 companies were therefore assessed, with a breakdown of companies assessed by sector in the table below.

<table>
<thead>
<tr>
<th>Sectors identified by TCFD</th>
<th>Climate Disclosure Barometer sectors</th>
<th>Number of companies reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>Banks</td>
<td>7</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>Insurance companies</td>
<td>8</td>
</tr>
<tr>
<td>Asset owners*</td>
<td>Asset owners and managers</td>
<td>26</td>
</tr>
<tr>
<td>Asset managers*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, food, and forest products</td>
<td>Agriculture, food, and forest products</td>
<td>15</td>
</tr>
<tr>
<td>Energy</td>
<td>Energy</td>
<td>14</td>
</tr>
<tr>
<td>Materials and buildings*</td>
<td>Materials, chemicals and construction</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Buildings</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Mining and metals</td>
<td>24</td>
</tr>
<tr>
<td>Transportation</td>
<td>Transport</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>144</strong></td>
</tr>
</tbody>
</table>

* For the purposes of this report, these sectors were re-grouped where distinctions between categories could not be determined or where further sub-sector analysis was useful.

The TCFD Recommendations are structured around four core elements that reflect how companies operate – governance, strategy, risk management and metrics and targets (shown in the figure below). Companies were scored through a multi-tiered system which incorporated both the coverage and quality of the disclosures. Firstly, companies were assessed on how many of the 11 recommended disclosures they addressed. Secondly, the quality of these disclosures was also assessed using the scoring system presented below.

The findings are based on disclosures in publically available information including annual reports, sustainability reports, or elsewhere such as a company’s website. Where publically available, a company’s disclosure in relation to the Climate Disclosure Project (CDP) was also considered.

The scoring system has been updated since the publication of the 2017 Climate Risk Disclosures Barometer to align with the final TCFD Recommendations, published in June 2017. The revised scoring system used in 2018 (this publication) set more stringent requirements aligned to the TCFD Recommendations. This resulted in a drop in the average disclosure quality scores compare to last year. A quality score of 100% in this report represents current best practice. The scoring system may be updated in future if the best practice benchmark shifts, for example when it becomes commonplace for climate risk disclosures to be made in a company’s financial filings.

Metrics used in this report:

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Percentage of the 11 TCFD Recommendations addressed by the company. A score of 100% indicated that the company has addressed all (11) of the Recommendations.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality</td>
<td>Average rating out of 5 across TCFD Recommendations based on the quality of the disclosure, expressed as a percentage and weighted by coverage. A score of 100% indicates that the company had adopted all (11) of the Recommendations and the quality of the disclosure met all the requirements of the TCFD (i.e. gaining a maximum score of 5 for each of the 11 Recommendations).</td>
</tr>
</tbody>
</table>

The quality of the disclosures was scored using the following scoring system:

- 0 - Not publically disclosed
- 1 - Limited discussion of the aspect (or only partially discussed)
- 3 - Aspect is discussed in detail
- 5 - All features of the aspect are addressed in the disclosure
Key findings

Content and sources of disclosures

The analysis shows that companies generally reported on climate risks in sustainability reports, annual reports, or stand-alone reports focussing on climate risk (including CDP reporting). The TCFD Recommendations ask for disclosures to be made in “financial filings”, alongside other financial disclosures. This element of the TCFD Recommendations is yet to be widely implemented. There has been some discussion about where, within the annual report, these disclosures would sit. Given they are forward-looking and not historical disclosures, the general consensus is these best fit within the Operating and Financial Review, where companies set out business strategies and prospects for future financial years. This approach is aligned to the recommendation of the Australian Securities and Investments Commission (ASIC) as outlined in REP 539 ASIC regulation of corporate finance issued in August 2017. At the sector level, we found that the non-financial sector lead the financial sector in regards to the quality of their disclosures, with 70% of the top ten scoring companies coming from the non-financial sector. At individual company level, Aurizon Holdings, BHP, AGL Energy, South 32, Westpac and, the Australia and New Zealand Banking Group Limited received the highest scores across all sectors.

Compared to the 2017 Climate Risk Barometer results, there was a notable increase in the number of stand-alone reports on climate change, as well as the level of disclosure within annual reports. We saw few cases where these additional disclosures replaced the CDP responses, however it did not systematically lead to an improvement in the quality of the disclosure. It appears that the majority of the disclosures made in annual reports and sustainability reports provided less detailed information than stand-alone climate reports, including CDP responses. More specifically, the quality of the disclosures regarding the core elements of the TCFD Recommendations including Governance, Risk Management, and Targets and Metrics was higher in the CDP responses, while the disclosures related to the approach taken by companies to perform climate change scenario analysis and associated results were better described and accessible in stand-alone climate reports.

Annual report
Sustainability report
CDP response
Webpage on sustainability or climate change
Other

“Whilst we have seen an increase in climate-related disclosures made in annual reports, these are largely limited to governance and risk management issues. Significant gaps remain in relation to disclosures made in annual reports on the strategy, metrics and targets. To ensure a sustainable future, it is important for companies to integrate their climate risk assessments into core business strategy and put in place the monitoring required to demonstrate how they are responsibly mitigating climate risk.”

Dr. Graham Sinden, Director
Climate Change and Sustainability Service, EY Australia

Overall performance

In less than a year since the issuance of the TCFD’s Recommendations on Climate-related Financial Disclosures, the Climate Risk Barometer 2018 analysis shows that Australian companies have taken the measure of the need for a change. However, the level of adoption of the Recommendations by the Australian business community remains too low. The coverage of the Recommendations across all sectors was moderate (51%) and the quality of the disclosures remained low (25%) indicating that, for the Recommendations adopted by companies, the disclosures partially meet the requirements of the TCFD.

When assessed in our prior reporting year, the adoption of the TCFD Recommendations significantly varied across the sectors, driven by differing levels of pressure from key stakeholders on the companies across sectors. Similarly, varying levels of adoption were identified in this year’s analysis including within the Banking and Energy sectors, who were found to be the leading sectors in terms of overall performance against the TCFD Recommendations. The result of this year’s analysis indicated that the Banking and Energy sectors continue to face significant pressure from shareholders in relation to climate risks. Energy companies have faced shareholder resolutions requiring them to report the impacts of a “two degree” economy on their business, while Banks have faced similar resolutions to report on greenhouse gas emissions financed through their lending activities. A two degree economy is a low carbon economy that prevents the global average temperature to increase to 2°C above the pre-industrial average. The year 2017 saw the first legal challenge against an Australian bank for the non-disclosure of climate risks within the annual report, though this was later withdrawn.

Surprisingly, the other financial services sectors, including Asset Owners and Managers and Insurance companies, showed the lowest quality climate disclosures. These sectors consisted of a handful of companies with a high level of disclosures and a majority of companies with a lower level (or no) disclosure, reducing the average score for these sectors. This result wasn’t expected given the growth in the responsible investment market in recent years combined with well-established initiatives targeted at investors including the Montreal Pledge and the Portfolio Decarbonisation Coalition.

The 2017 analysis showed that three of the four core elements of the TCFD were more widely adopted by companies: Governance, Risk Management, and Target and Metrics, as compared to the core element Strategy. This was despite a low level of quality across the core elements with an average score of 25% indicating that, for the Recommendations adopted by companies, the disclosures partially meet the requirements of the TCFD.

“Investors are demanding more information relating to companies’ climate-related risks and opportunities, in order to make informed and responsible investment decisions. Companies will have to respond to this demand. Our analysis shows that active shareholders are driving higher quality disclosures. BlackRock has made the understanding of climate risk a key priority, and this is making a real difference. This analysis showed that where BlackRock was a substantial shareholder, the quality of climate risk disclosure was a cut above the rest, on average covering 77% of the TCFD Recommendations; achieving a quality score of 42% (17% higher than the ASX200 average).”

Pip Best, Senior Manager
Climate Change and Sustainability Services, EY Australia
Breakdown of financial and non-financial sector

- **Financial sectors**
  - 23% Coverage
  - 52% Quality

- **Non-financial sectors**
  - 26% Coverage
  - 53% Quality

**Sector Breakdown**

- **Banks**
  - 68% Coverage
  - 49% Quality

- **Insurance companies**
  - 43% Coverage
  - 17% Quality

- **Asset owners and managers**
  - 50% Coverage
  - 17% Quality

- **Agriculture, Energy, food, and forest products**
  - 44% Coverage
  - 23% Quality

- **Materials, chemicals and construction**
  - 67% Coverage
  - 35% Quality

- **Buildings**
  - 56% Coverage
  - 23% Quality

- **Mining and metals**
  - 64% Coverage
  - 22% Quality

- **Transport**
  - 46% Coverage
  - 25% Quality

**Average performance against the recommendations by category**

- **Governance**
  - 58% Coverage
  - 25% Quality

- **Strategy**
  - 45% Coverage
  - 22% Quality

- **Risk management**
  - 54% Coverage
  - 27% Quality

- **Targets and metrics**
  - 56% Coverage
  - 27% Quality
Climate Strategy

There was an increase in the number of companies that reported using climate change scenario analysis to drive their strategic response to climate risks and opportunities, compared to the results of last year’s Climate Barometer. Twelve companies disclosed on some form of scenario analysis and, surprisingly, ten of these companies were not in the financial services sectors, with only two banks having undertaken this type of analysis – and a third committing to do so in the next year. This reflects a promising shift in the approach taken by companies to improve their understanding of climate risk and to support sustainable business strategy with increasingly rigorous and sophisticated risk assessments that take into account forward looking assumptions based on a two degree economy.

A significant gap identified in the 2017 disclosures was the lack of sophisticated analysis around physical risks and opportunities. A number of sectors identified physical risks as being as material or more material than transition risks including the Insurance sector, the Agriculture, food, and forest products sector, the Building sector, the Materials, construction and chemicals sector. However, quantitative disclosures around the potential impacts of physical risks on their operation and/or value chain was not provided. None of the twelve companies that disclosed climate change scenario analysis results specifically addressed physical risks.

The analysis showed an improved adoption of climate transition risk analysis, with eleven of the twelve companies reporting on this, explicitly considering the impacts of a “two degree” economy on their business. Approaches taken by companies weren’t consistent, however, and included both a top-down approach, considering the economy-wide impacts of transition impacts, and a bottom-up approach, focussing on sectors or assets expected to be most impacted. The most commonly referenced transition scenarios were the International Energy Agency (IEA) 450 Scenario (sets out an energy pathway consistent with the goal of limiting the global increase in temperature to 2°C by limiting concentration of greenhouse gases in the atmosphere to around 450 parts per million of CO2) and its New Policies Scenario (the New Policies Scenario of the World Energy Outlook broadly serves as the IEA baseline scenario. It takes account of broad policy commitments and plans that have been announced by countries, including national pledges to reduce greenhouse-gas emissions and plans to phase out fossil-energy subsidies, even if the measures to implement these commitments have yet to be identified or announced).

Risk Management

Readers of the EY ESG Investor Survey¹ will recall that investors in Europe and Australia led their peers in other regions in integrating a structured approach to ESG information analysis. In 2017, 100% of the surveyed investors in Australia and New Zealand expected increased company climate practice and related risk-management strategies disclosures as a result of the COP21 “two degree” economy targets. The analysis showed that risk management strategies were disclosed by companies across all sectors, however these did not always align to the key risks identified by the companies. Most companies identified risk management strategies to reduce their own Scope 1 and 2 greenhouse gas (GHG) emissions profiles, but did not always address physical risks or climate risks to investments.

Where the financial services sector did identify strategies around investment risk, these strategies where most commonly aligned to reducing the carbon intensity of equity or debt portfolios, or setting green lending targets to grow lending in certain sectors. Some companies also negatively screened out investments in certain highly-impacted sectors or set investment thresholds, such as a minimum energy content or maximum earnings reliance on the thermal coal sector.

In the Energy sector, the use of an internal carbon price was noted as being one form of risk management strategy used most frequently. Carbon pricing assumptions were rarely disclosed, reducing the ability for stakeholders to compare the risk strategies between companies within or outside exposed sectors. The Energy sector did not frequently address risk management strategies for downstream GHG emissions, which for companies in sectors such as oil and gas, is the transition risk exposure. Adaptation planning, used to address physical risks, was noted mainly in the Buildings sector, with other sectors providing little insight into their physical risk mitigation strategies.

Climate targets

Reporting Scope 1 and 2 GHG emissions, and targets aimed at reducing these emissions, were the most commonly disclosed climate metrics. Metrics and targets relating to these emissions provided insights into the direct contribution a company is making to mitigate climate change, though did not allow readers to understand whether these were the most material climate impacts associated with their value chain. The time horizon and scale of these targets, generally, did not align with science-based requirements to limit global temperature rise to below two degrees. The Building sector was the leader in terms of setting ambitious direct emissions reduction targets, in some cases seeking net carbon neutrality before the middle of the century.

This year’s analysis also showed a disconnect between key climate risks and the setting of relevant targets. On some occasions, the finance sector set targets relating to reducing the emission intensity of certain investments, but across all sectors, there were no mentions of targets to address physical risks, even for those companies that identified physical risks as material to their business or value chain. This is an area where significant improvement is possible in future years.

“More companies are undertaking climate change scenario analysis. However, with fewer than 10% of the companies assessed (12/144) disclosing information on climate change scenario planning, the speed of change is too slow. Undertaking climate change scenario analysis not only addresses the TCFD Recommendations, it provides companies with new inputs into business strategy and planning which enhances internal capability and processes.”

Frederic Papon, Director
Climate Change and Sustainability Services, EY Australia

“Over the last 12 months, our engagement with the business community indicates that board members increasingly understand the need for a change in reporting practices – and we’re seeing improvements. However, our analysis continues to raise questions about the depth of the disclosures being made on climate risks exposures and resilience. There is certainly still room for improvement.”

Dr. Matthew Bell, Partner
Oceania Climate Change and Sustainability Services Leader, EY Australia

“Almost all sectors of the economy face major disruption from climate transition and climate impacts over the coming years. Yet a majority of Australian companies are still not engaging seriously with these risks, or positioning themselves to take advantage of the opportunities. With investors paying increasing attention, this is likely to affect their valuation even before the impacts are fully realised.”

Terence Jeyaretnam, Partner
Climate Change and Sustainability Services, EY Australia
Banks

Sector Overview

As identified in the 2017 review, the banks continue to align their climate risk disclosures with the TCFD Recommendations outperforming the non-financial sector, however, the additional disclosures made in the Banks’ 2018 public reporting were minimal. Once again, industry reporting was primarily driven by the “Big Four” demonstrating significant compliance with the TCFD Recommendations and with smaller players either unable to demonstrate adherence or simply not reporting.

Improvements were made in Banks’ Strategy and Metrics and Targets from 2017 and leaders in the sector had published high-level results from two degree scenario modelling. However metrics, targets and scenario modelling generally excluded physical risks, which represent a large risk to the banking sector, particularly through large mortgage portfolios. Residential property insurance in Australia generally excludes claims relating to flooding risks, which increases the risk on banks and property owners.
Governance

Governance disclosures made by the Big Four generally met the TCFD Recommendations with three stating that ultimate responsibility for climate risk governance resided with the Board or a sub-committee of it. Further to this, CDP responses detailed executive incentives designed to encourage the management of climate risk at a whole-of-entity level.

Banks generally applied two lenses to carbon governance, an internal focus on entity emissions, carbon neutrality, and the impacts of climate risk on the business; and an external focus on the emissions embedded within their lending practices and the projects funded to encourage a transition to a low-carbon economy. Four of the seven entities reviewed disclosed their exposure to emission intensive industries in various manners and the quantum of lending made to renewable energy projects.

Strategy

Five of the seven banks have established a process through which they identify climate risks and opportunities, with one outlining its prioritisation of risks and opportunities through traditional banking industry risk categories. These same five banks recognised the upward pressure to their cost bases driven by a transition to a low-carbon economy, and referenced the two degree aim articulated by the Paris Agreement. NAB and ANZ were members of the United Nations Environmental Program (UNEP) Financial Initiative's TCFD Pilot project testing the Recommendations prior to their finalisation.

Only two banks disclosed the expected outcomes from internally generated scenario analysis, and two additional banks were currently completing an analysis, with one committing to complete this by the end of the 2018 calendar year. Smaller entities in the industry had not undertaken or published the results of scenario analyses.

Risk Management

The risk management practices across the largest banks were relatively robust in their design, considering the majority of the TCFD’s Recommendations. The largest four banks considered climate risk - including physical and transitional risks - in their CDP responses, to some degree. Three of these considered physical risks in their mainstream public reporting. The largest four banks outlined a number of initiatives to manage climate risk within their CDP responses. These strategies included consideration of energy policy and regulation and the impacts of changing customer behaviours. Further to this, consideration was given to climate exposure including the intensity of financed emissions and lending to renewable energy projects.

Targets and Metrics

Six of the seven banks disclosed their Scope 1, 2 and selected scope 3 GHG emissions for the year. The Big Four disclosed their financed emissions from lending portfolios to varying levels of detail. Some placed a focus on power generation and others extended their disclosure to the extractive and other industries. The impact of physical risk was not specifically quantified and disclosed.

Targets predominantly focused on the banks’ Scope 1 and 2 GHG emissions. As identified in our 2017 review, these targets did not specifically align with the significant risks and opportunities identified by the banks which focus on the risk to their clients. We did note greater commitment to decrease lending in the thermal coal sector, with lending restrictions around energy content and greenfield developments being noted. It was also common for the banking sector to set and/or increase green lending targets, and support loans for certain assets such as renewable energy or energy efficient buildings.
Insurers

Sector Overview

Eight companies were assessed in this sector, and on average they received low disclosure scores across all categories, despite most entities addressing the majority of the TCFD Recommendations. This result reflects a limited amount of detail in the information disclosed, rather than an absence of overall reporting. For individual TCFD disclosure categories, larger entities (by revenue) scored significantly higher than smaller entities. Physical climate risk disclosure was a common theme, but despite this there was very limited disclosure of climate scenario analysis to support climate risk management and integration. Most companies submitted CDP reports, which was the main source of information disclose.
Governance
Governance was the second-highest scoring TCFD category in insurance, with the largest two insurers (of those assessed) easily outscoring others in this category. Further clarity on board-level sustainability committees, including composition and interaction with management, remains an area for future focus.

Strategy
In common with our prior year report, one of the entities in this category put forward a clear assessment of the physical and transition risks facing the business, while some other companies provided a high level view of the risks facing the business, without referring to any form of scenario analysis or approach for identifying climate impacts. Overall, however, few companies provided an adequate disclosure in this category, making it the poorest performing TCFD category in the insurance sector.

Risk management
Risk management processes for identifying climate risks were relatively well established, outscoring other aspects of risk management including the disclosure of the processes for managing climate related risks. Importantly, we noted that the integration of these risks into the companies’ overall risk management process and how they aligned to climate risk identification was poorly disclosed.

Targets and metrics
Scope 1 and 2 GHG emissions were routinely disclosed by the insurers assessed in this section; however, Scope 3 emissions, targets, and historical trends were less visible in the sector.

The scope 1 and 2 emissions are unlikely to be the key climate risk issue for insurance companies, and there was little focus on climate-related targets and metrics that aligned to more material risks such as the physical impacts of climate change on insurance policies, or the impact of a transition to a low-carbon economy on investments. Unlike asset owners and managers, disclosing the emissions intensity of investments was not routinely carried out.
Asset owners and managers

Sector Overview
Despite their broad exposure to climate risk across the economy, the level of climate change disclosure amongst asset owners and managers remains low, with little improvement compared to 2017. The level and type of disclosure differed between asset owners and managers, which may reflect efforts to address the concerns of different stakeholder groups. Asset manager disclosures were not as transparent and in some cases were not publically available. Superannuation funds made up a large portion of asset owners, and while public disclosures for this group were more readily available, in general they did not address the majority of the TCFD Recommendations to a sufficient level of detail. It was noted that some asset owners scored more highly in the Asset Owner Disclosure Project (AODP) but this score was not replicated in this analysis of publically available climate risk disclosures, meaning some assets owners may be doing more to address climate risk than they publically disclose that may contribute to more information asymmetry.

Disclosures tended to be less targeted than for other sectors, with a low level of disclosure contained across multiple mediums, including annual reporting, responsible investment reporting, and webpages focussed on climate change. There were lower levels of participation in the CDP, with some asset owners being CDP members and publically encouraging companies to participate in the CDP, but yet not submitting a response themselves. Similarly, asset managers often published reports on approaches for managing climate risk for companies, but did not publically disclose their own management of climate risk in line with their own recommendations. Overall, we noted that this group didn't consider climate risk as a material risk to this sector but may be to some of the companies that assets owners and managers invest in, potentially reflecting their sense that portfolio management allowed for risk reduction on their part.
Governance disclosures that related to climate change were generally limited to broad disclosures on ESG governance, via annual reporting. The management of climate risks was often split between risk management of direct impacts (which were overseen with by sustainability teams), and the risk management of the impacts of climate change on their investments (which was delegated to investment managers), without a clear governance structure to report these impacts to those charged with governance.

Strategy
Some companies disclosed climate change impacts to their business, while others stated that climate change was not seen as a material risk. Even among those that did disclose climate-related impacts, key risks, including the transition and physical impacts to investments, were often omitted. A higher proportion of companies noted risks from cost increases to their own electricity consumption due to a carbon price, an issue that is unlikely to be material for this sector.

Like most sectors, disclosure related to scenario analysis, and the impact of a two degree scenario on assets owners and managers, was not publicly available.

Risk Management
For the asset owners and managers that reported on the management of climate risks to investments, strategies to address these risks varied significantly. The most commonly identified strategies included engagement and advocacy with companies on the issue, proxy voting, and the integration of ESG considerations into investment decisions and in the process to select asset managers. Some asset owners negatively screened sectors or companies from certain product offerings expected to face a higher level of stranded asset risks, such as thermal coal. There were only four entities that discussed risk management strategies to monitor the physical risk to investment.

Targets and Metrics
We noted that only four companies had disclosed carbon footprinting of equity portfolios and two companies advised that the assessment of the carbon footprinting of portfolio had been performed, although it wasn’t disclosed. This was typically restricted to equity investments (not debt or direct investments), even though climate risk would cover all investment sectors. Some companies commented that carbon footprinting disclosures can be misleading and instead disclosed metrics related to percentage of holdings in companies with material revenues from fossil fuel products. Disclosures around physical risks were limited to one company and related to the assessment of the physical resilience of investments to extreme weather events and rising sea levels. No targets or metrics that specifically addressed physical risks were disclosed.

Scope 1 and 2 GHG emissions were reported in some instance; however it is unlikely Scope 1 emissions were a material issue for this sector. Some companies had set targets to reduce Scope 2 emissions or the carbon intensity of their equity portfolios.
Agriculture, food and forest products

Sector Overview

Overall, the agriculture sector lacked adequate coverage of the TCFD Recommendations, with the average quality score for disclosures for this sector lower than in last year’s analysis. This decrease was driven by a lower quality scores for five of the 15 companies assessed. Three companies, however, scored highly for their disclosures across the TCFD Recommendations, improving the benchmark average for the sector overall.

Only four of the 15 companies assessed had participated in the CDP this year, with these companies tending to have a higher level of disclosure than those that did not participate as the CDP reporting structure was the vehicle for high level disclosures. Improvements were made in Agriculture’s Risk Management and Governance from the 2017 analysis, with leaders in the sector reporting on the risk management and internal controls in place to address operational risks to their agricultural activities.

One company mentioned the use of a two degree climate scenario analysis to understand the longer term impacts to the Australian economy, including risks and opportunities for the company. Two others companies indicated that they were exploring the use of scenarios for coming years.
Governance
The coverage of governance disclosures remained low in our analysis, with nine companies not providing any disclosure on climate-related governance. However, a number of companies provided disclosures which were consistent with certain elements of the Recommendations, resulting in an overall moderate score for quality.

Six companies described the board’s oversight of climate-related risks and opportunities, including the processes by which the board and/or committees (e.g., sustainability committee, risks committee) were kept informed, with a third of the companies clearly articulating either how the board considered climate risk when reviewing strategy and performance, or how the board monitored progress against goals and targets for addressing climate-related issues.

Disclosures related to management’s role in assessing and managing climate risks and opportunities were at a similar level to 2016. A third of the companies reported on the responsibilities of management regarding the monitoring of climate-related issues, both transition and physical risks.

Strategy
The coverage of disclosures around climate-related strategy remained consistent compared to prior year, however the quality was found to have decreased.

A majority of the companies identified climate-related risks as being material issues for their operations, customers, and communities. However information regarding the materiality determination process and the use of climate-scenarios to inform the development of climate strategy had not been disclosed by the companies for this group. Five companies did not disclose any climate-related risks and opportunities.

One company undertook scenario analysis using a two degree scenario, leading to qualitative output. The assessment of the physical impact of climate change was mentioned by seven companies, including the type of extreme weather events. The link between weather conditions and agricultural production was a general concern across the sector. However these companies did not disclose information in relation to the mapping on the specific impacts to their producers, nor their producers from competitors.

Fewer companies addressed the strategic opportunities associated with climate change in their disclosures. Those that did identify opportunities noted the reduced operational costs associated with systems developed to comply with mandatory and voluntary climate legislation, and the opportunity to strengthen relationships with stakeholders, such as producers, while increasing the resilience of the supply chain.

Risk Management
The quality in climate-related risk management disclosures decreased compared to prior year, and coverage decreased significantly. Four of the 15 companies in this analysis provided details on risk management practices and how climate-related risk identification and assessment processes are linked to companies’ overall risk management approach (principally via their CDP submissions).

Three companies disclosed the method used to assess the impact of climate risks to agricultural operations. One company mentioned the use of climate scenarios to inform asset-level contingency plans and required risk mitigation plans however the company did provide details as to the inclusion of the supply chain (e.g., producers, farmers, growers) in these plans. One company committed to work with the agriculture suppliers to build capacity on managing climate change risks with an initial focus on water.

Targets and Metrics
The quality and coverage of climate-related target and metrics disclosures decreased from prior year.

Nine companies reported their Scope 1 and Scope 2 GHG emissions, including historical trends, while only four companies disclosed their Scope 3 emissions. Six companies did not disclose any emissions data.

Only four companies have set targets in relation to climate-related risks, though others had targets for broader sustainability aspects. The targets adopted by companies included a mix of absolute and emissions intensity targets with different time horizons with a number of companies exploring science-based targets.

Only four companies reported on the water usage of their activities including absolute and intensity metrics; however only one company had set a target related to water consumption.
Energy Sector Overview

The average quality of energy sector disclosures improved this year, driven by some significant improvements in disclosures from five companies (of a total of 14 assessed). One company declined to respond to the CDP in 2017 but failed to produce equivalent climate-related disclosures, which had been made through the CDP in previous years, leading to a significant decline in disclosure scores. By contrast, another company that replaced its CDP response with a stand-alone climate change report — tailored to the TCFD Recommendations — improved their score significantly.

Improvements were made in relation to Strategy and Metrics and Targets from prior year, and leaders in the sector reported on the impact of a two degree scenario on their business, up from only one company in last year’s analysis. Three companies had factored an internal carbon price into decision-making processes, but did not disclose the price (claimed to be due to commercial sensitivity).
Governance

The coverage of governance disclosures remained high, with only two companies not providing any disclosures related to these TCFD Recommendations. However, the quality of governance disclosures was relatively low compared to other TCFD core elements, with only three companies scoring 70% or above.

Most companies described the board's oversight of climate-related risks and opportunities, including the processes by which the board and/or committees are kept informed. However, few clearly articulated how the board considered climate risk when reviewing strategy and performance, or how the board monitored progress against goals and targets for addressing climate-related risks.

Management's role in assessing and managing climate risks and opportunities was not disclosed sufficiently to meet the TCFD Recommendation by most companies. In particular, companies did not report on how management were informed about, or monitored, climate-related risks.

Strategy

Half of the companies analysed were found to provide comprehensive disclosures around climate-related strategy, a significant improvement from last year.

Five companies provided thorough descriptions of climate-related risks and opportunities, including the impact on their companies’ businesses, strategy and planning, but did not specify time horizons (short, medium and long term). Further, few companies provided any robust description of the processes used to determine whether risks and opportunities could have a material financial impact on their organisation.

Four companies reported on the impact of a two degree scenario on their business, up from only one company in the prior year. For those that did undertake scenario analysis, the output was largely quantitative. Scenario analysis of the physical impact of climate change on operations was reported by two companies.

Risk Management

Four companies did not report against any of the TCFD Risk Management Recommendations, with most other companies only partially covering all three. Companies that released a stand-alone climate change report, or included specific disclosures within annual or sustainability reports, scored well compared to those relying more on CDP responses.

The most significant improvement was seen in companies’ disclosures of how the processes for managing climate-related risks were integrated into the companies’ overall risk management approaches.

Targets and Metrics

The greatest improvements in disclosure for the energy sector were seen for the targets and metrics Recommendations. Disclosure of greenhouse gas emissions was extensive, with half of the companies analysed disclosing Scope 1, 2 and 3 GHG emissions.

Disclosure of metrics was also high and more extensive than before, although for some companies the metrics disclosed did not align to their most material climate-related risks. A number of companies disclosed that they factored an internal carbon price into decision-making processes, but not the carbon price itself.

Reporting of targets was more limited with few companies disclosing targets related to climate-related risks management. Three companies committed to or disclosed they are considering setting targets in the near future, but often these were restricted to Scope 1 and/or Scope 2 GHG emissions, which, particularly for oil and gas companies, would not address the most material climate impact in their value chain. Physical climate risk metrics and targets were largely absent from public disclosures.
Materials, chemicals, and construction

Sector Overview
The coverage of the TCFD Recommendations had improved this year, though the average quality of the Materials, chemicals, and construction sectors’ disclosures remained constant, driven by nine companies (of a total of 19 assessed) expanding their reporting.

Disclosures made in company reports and publications such as annual and sustainability reports improved compared to last year; however, the reliance on CDP for disclosures remained high for this sector. Only eleven companies participated in the CDP this year, with eight declining to respond. Disclosure scores for five companies declined significantly where they did not respond to CDP but didn’t undertake supplementary climate-related disclosures elsewhere.

Leaders in the sector identified the transition risks and physical risks as both being material to their organisation across the value chain including, for example, supply chain disruption, emissions competitiveness of operations, and changing customer/end-user preferences. Three companies committed to using climate-scenarios, including the two degree scenario, in the near future to inform the development of the strategy and mitigation actions. The approach taken to assess the climate-related risks varied between companies, including a company-wide strategic business review of the risks and opportunities, a bottom-up approach at individual assets level, and the assessment of climate-related issues as part of the annual risk management and planning processes.

19 EY Climate Risk Disclosure Barometer
Governance
The coverage of governance disclosures remained high this year, despite five companies not providing disclosures related to the climate-related governance. A number of companies provided disclosures related to the oversight by the board of sustainability issues without specifying climate-related risks, resulting in a lower score for quality.

A small number of companies within this sector reported on the work the board does within its internal risk management framework to manage climate-related risks.
Disclosures related to management’s role in assessing and managing climate risks and opportunities were not commonly addressed by the sector.

Strategy
The coverage and quality of disclosures around climate-related strategy was consistent with last year, generally being low for this sector.

The number of entities articulating how their strategy considered climate change was low, despite a large number having identified that both transition and physical risks were material to their organisation and value chain. Three companies committed to using climate-scenarios, including the two degree scenario, in the near future to inform the development of the strategy and mitigation actions.

Energy efficiency, productivity improvement, alternative energy sources including solar PV electricity, and product life-cycle analysis were mentioned by four companies as being part of their climate risk mitigation strategies, noting the commercial opportunities as well as indirect benefits in addressing energy, reliability and pricing.

Risk Management
The quality and coverage in climate-related risk management disclosures improved this year.

Fifteen companies received a score for this section despite half of them declining to respond to the CDP, which indicated that they had provided climate change information tailored to the TCFD Recommendations via other reporting mechanisms. Half of these companies provided a high level description of the company’s internal risk management framework, including details as to how the climate-related risks were assessed and managed within their overall risk management system.

The approach taken to assess the climate-related risks varied between companies, which included a company-wide strategic business review of risks and opportunities, a bottom-up approach at an individual asset level, and the assessment of climate-related issues as part of an annual risk management and planning process. One company specifically mentioned the adoption of the recommended framework set out by the TCFD to perform its risks and opportunities assessment.

Targets and Metrics
In keeping with last year’s results, most companies in this sector reported their Scope 1 and Scope 2 GHG emissions, with a small number also disclosing their Scope 3 GHG emissions. Those entities also provided further information in terms of their energy consumption by source, and their achievements in optimisation and reduction of GHG emissions.

Most companies reported having targets to manage climate-related risks and opportunities, with the exact design of these targets varying from emissions intensity reduction, to waste reduction, absolute GHG reduction, and energy consumption reductions. Time horizons and base years varied significantly across the sector.

One company committed to set a science-based target in the near future. However, targets related to adaptation and/or assets resilience to physical-risks hadn’t been adopted by the sector which, particularly for the sector, had been identified as a material issue.
Buildings

**Sector Overview**
For this year’s analysis we noted that the Buildings sector, together with the Banks and Insurers, led the coverage of the TCFD recommendations. However, the average quality of disclosures made by the Buildings sector decreased compared to last year, driven by a lower quality in disclosure by four companies of the 21 assessed.

Disclosures made in publications such as annual reports and sustainability reports improved compared to last year; however, the reliance on CDP for disclosures remained high for this sector. Similarly to last year, thirteen companies participated in the CDP this year, with nine declining to respond. Improvements were made in Risk Management and Metrics and Targets, with leaders in the sector reporting their methods for assessing the impact of physical climate risks to their building portfolios, as well as the development of assets-specific adaptation plans. One company mentioned the use of climate scenarios to inform the design of new buildings, and to increase their resilience to extreme weather events; however, metrics and targets generally excluded physical risks.
Governance
The coverage of governance disclosures remained high in the analysis, with just five companies not providing any disclosures related to climate-related governance. A number of companies only provided disclosures consistent with certain elements of the recommendations, resulting in a moderate score for quality overall.

Most companies described the board's oversight of climate-related risks and opportunities, including the processes by which these board and/or committees (e.g., sustainability committee, risks committee) were informed. However, only one-third of the companies clearly articulated how the board considered climate risk when reviewing strategy and performance, or how the board monitored progress against goals and targets for addressing climate-related issues.

Disclosures related to management's role in assessing and managing climate risks and opportunities had improved compared to last year. In particular, a third of the companies reported on the responsibilities within management regarding the monitoring of climate-related issues, for both transition and physical risks.

Strategy
While a majority of the companies assessed had identified both transition and physical risks as being material issues for their operations, customers and communities, the anticipated improvement regarding the disclosures on the materiality determination process and the use of climate-scenarios to inform the development of the strategy wasn't noted.

For the two companies that undertook scenario analysis using a two degree scenario, the output was qualitative. Assessment of the physical impact of climate change was mentioned by just five companies, including the type of extreme weather events assessed: the use of a climate scenario (e.g., four degree scenario) wasn't covered by any company.

A higher number of companies had disclosed the strategic opportunities associated with climate change, demonstrating a high level of integration within the business planning and innovation processes. These include embedding energy and water efficiency measures into the design of new properties to increase their resilience to climate change, developing pilot net positive building, retrofitting existing properties with LED lighting, and increasing the uptake of solar electricity for new and existing building portfolios.

Risk Management
The quality in climate-related risk management disclosures improved this year; however, its coverage was the lowest scoring for the sector. Nine companies declined to respond to the CDP, which generally provided for greater detail on risk management practices and how climate-related risk identification and assessment processes were linked to the companies' overall risk management approach.

Eight companies had disclosed the method used to assess the impact of physical climate risks on their building portfolios, and five companies mentioned the development of assets-specific adaptation plans. One company mentioned the use of climate scenarios to inform the design of new buildings and their resilience to extreme weather events.

Targets and Metrics
The coverage of climate-related target and metrics disclosures remained high, but the quality score decreased compared to the prior year.

Most companies reported their Scope 1 and Scope 2 GHG emissions (metrics that are highly relevant for the building sector), including historical trends, and a number of companies disclosed selected Scope 3 GHG emissions as well. Other indicators reported by the companies included energy performance rating metrics such as the National Australian Building Environment Rating System (NABERS) and Green Star ratings, and often reported to the Green Real Estate Sustainability Benchmark (GRESB). However, metrics related to the resilience to physical risks hadn't been adopted widely by the sector.

Most of the companies set targets that could be used to manage climate-related risks. The targets adopted by companies included a mix of absolute and emissions intensity targets with different time horizons. Three companies committed to setting science-based targets in the near future. However, targets related to adaptation and/or assets resilience to physical-risks hadn't been adopted by the sector, which had been identified as being a material risk.
Mining and metals

Sector Overview
Disclosures by mining and metals companies were characterised by extremes in coverage and quality, with only six out of the 24 companies assessed achieving a quality score above 30%. This is consistent with last year’s observations, with our analysis seeing an average increase in the coverage and quality of disclosures driven largely by improvements from a small number of companies. Larger companies tended to provide more comprehensive disclosures in line with the Recommendations, with smaller organisations providing little or no information. There were a number of exceptions, with some mid-cap companies scoring above the median, often through disclosures made via CDP submissions.

Almost half the companies analysed either declined to participate in, or provided no response to, the CDP. With limited disclosures made through other means, these organisations generally scored poorly. Two companies elected to restrict their CDP submissions from public access, which negatively impacted their disclosure scores (as the information was not publicly available).
Governance
With an average coverage score of 50%, mining and metals companies continue to report little or no information on the role of the board in overseeing climate-related issues, or indeed management’s role in assessing and managing those issues.

A number of companies made mention of a sustainability or environment sub-committee of the board, with oversight of sustainability management and performance, but made no specific mention of whether they considered climate change aspects.

Some companies that did provide extensive disclosures did not adequately describe how the board monitors progress against goals and targets, or how management monitored climate-related issues.

Strategy
Half of the companies analysed provided no disclosure of how climate-related issues could affect the organisation’s business, strategy, or financial planning.

Of those that did make disclosures, most companies provided descriptions of climate-related risks and opportunities, including the impact on their organisation’s business, strategy and planning. Reporting of the process used to determine which risks and opportunities could have a material financial impact on the organisation was not commonplace.

Only two companies reported the impact of a two degree scenario on their business, with one other organisation disclosing they had undertaken scenario analysis (including details of the scenarios considered) but not reporting any of the outcomes or implications.

Risk Management
For those that made risk management disclosures, accounts of how climate-related risks were identified, assessed, managed, and integrated into existing risk management processes were often in line with the TCFD Recommendations, with a number of companies scoring well in this area.

While many of the Recommendations were met through CDP responses, a number of organisations provided detailed coverage of risk management in stand-alone climate change reports. Some companies also discussed climate risk within the risk sections of their annual reports, providing clear evidence of the integration of climate risk into the organisation’s overall risk management framework.

Targets and Metrics
Most companies reported both their Scope 1 and Scope 2 GHG emissions, with only a handful of smaller companies, below the National Greenhouse and Energy Reporting thresholds, making no disclosures. Only three companies reported their Scope 3 GHG emissions.

Mining and metals companies’ disclosure of climate-related metrics was the highest of any of the TCFD Recommendations, particularly for metrics associated with energy and water. This, perhaps, is a reflection of the operational nature of the sector and suggests that, although not always disclosed in governance, strategy and risk management approaches, these organisations are conscious of the impact of climate-related risks on their operations.

Reporting of targets was sporadic, with few companies disclosing targets which could be used to manage climate-related risks. A number of organisations committed to setting targets in the near future.
Transport

Sector Overview

The quality of disclosures for the ten entities assessed in the transport sector varied greatly. Three of the ten entities scored zero for their disclosures as they had not addressed any of the 11 TCFD Recommendations. Another three entities had at least partially addressed all 11 of the TCFD Recommendations, to varying degrees of completeness.

Relatively few entities in the transport sector had elected to participate in the CDP in 2017. However, the two entities that had completed CDP responses were amongst the highest scoring companies. Whilst much of the information was also provided in sustainability reports, this indicates that CDP participation may drive more comprehensive disclosures. One company received the top score in this category for its disclosures in its 2017 Sustainability Report which were explicitly aligned to the TCFD Recommendations. This was considered to be leading practice for the sector, as the impact of climate risks had been linked to revenue. Such reporting by companies is expected by the TCFD to be incorporated into financial filings in the future.
Governance
Although the transport sector’s coverage of governance Recommendations was below average, where information was disclosed it was discussed in detail resulting in an above average quality score. Still, relatively few disclosures covered all aspects of the TCFD Recommendations.

Disclosures related to governance generally noted the boards’ overall responsibility for risk management, as well as a brief mention of consideration of climate-related risk. The disclosures related to the board’s oversight and management’s role in managing climate-related risks and opportunity were generally limited and lacked detail.

Companies that scored highest in this category included details relating to the board committees involved, and articulated how current and emerging climate-related issues were being monitored and reviewed.

Strategy
Only four of the ten entities assessed had addressed the TCFD Recommendations related to strategy. Of those that had relevant disclosures, the disclosures tended to focus on the description of climate-related risks and opportunities and had less detail relating to the impact of these risks on the businesses’ strategy and financial planning, or the resilience of an organisation’s strategy.

Scenario planning was one area for improvement. Only one company disclosed the outcomes of its two degree scenario planning; describing its resilience in the face of changing demand for coal. Although physical risks had been considered this was not described as part of the scenario planning.

Risk Management
Four of the ten entities assessed did not disclose any relevant information relating to climate-related risk management. In general, companies tended to provide information on their overall risk management process, rather than linking climate-related risk management to the organisation’s overall risk management approach.

To improve the quality of discloses related to risk management, companies should consider describing how both existing and emerging climate-related have been considered and prioritised.

Targets and Metrics
Companies were often found to have considered these TCFD Recommendations, although there remained significant room for improvement. In general, transport companies usually disclosed some form of sustainability metric, resulting in the highest coverage and quality scores in this category, relative to the other categories of Recommendations.

Disclosures were largely for broad environmental metrics, which didn’t always link back to the key climate risks identified, nor their risk management processes. This impacted the ‘quality’ score for this category across this sector. Companies that scored highest in this category included climate-related metrics for the risks identified and disclosed the method as well as historical trends.
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