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Investors call for company board directors to lead the transition to net zero emissions

Key points:

- Investors are increasingly putting pressure on company board directors to address the systemic risks of climate change.
- Many Australian company directors of climate risk exposed companies lack the skills or experience in climate change risk, company transformation and disruption that they will require to lead the corporate transition to net zero emissions by 2050.
- Investors expect the company climate transition strategy to be fully integrated into the overall company strategy.

15 November 2021 – A new report, '[A Changing Climate: what investors expect from company directors on climate](#)' by the Investor Group on Climate Change finds Australian company directors lack the skills and experience to lead the corporate transition to net zero emissions by 2050 and it is unclear how they are addressing this gap.

The analysis, which studies fifteen of Australia's most carbon intensive companies, sets out investor expectations of company boards and their management regarding climate change risk, particularly for companies highly exposed to climate-related transition risks. It also provides guidance on what outcomes investors want to see directors and boards deliver as companies set out their net zero ambitions and approaches.

The report comes as shareholders globally are increasing their action against boards who are seen to be failing in their duties to manage climate risk. In 2021 there have been moves to replace board members who fail to address climate risks, and votes against remuneration and the re-election of directors. Earlier this year, ExxonMobil lost two board seats due to growing concern by investors over the risk of failing to adjust its business strategy to address global efforts to combat climate change.

The analysis reveals that climate change is siloed as a separate risk issue and not integrated into the overall company strategy and risk management approach.

"Climate change risk is still being seen by companies as a reputational or environmental risk and not as a significant business or investment risk," said Ian Woods, the report's lead researcher and author.



“Assessing fifteen Australian companies, we found that many companies identified the need for climate skills on their board, but few identified broader transition and disruption expertise, and none were comprehensively disclosing on board skill sets. Based on current disclosure it is hard for investors to form a view on how prepared these boards are for the transition.”

“We’re not seeing the progress we need from companies to instil investor confidence,” said Laura Hillis, IGCC’s Director of Corporate Engagement. “We are at a tipping point for the transition to net zero emissions in Australia as evidenced by recent announcements from the federal government. While promisingly, many of the companies assessed for this report have set net zero targets, it is unclear based on the findings of this report how prepared the boards of these companies are to lead the transition to net zero.

“Boards that fail to recognise the risk of climate change and their role in driving the company transition to a low carbon business, will leave the company and investors exposed to unacceptable financial, strategic and market risks. Not to mention they will miss out on the opportunities on the decarbonisation pathway, including jobs for regional communities.”

To ensure investment confidence, investors want to see:

- Board members with the necessary skills to reflect the climate challenges ahead, including:
 - o Skills in disruption and transition
 - o Ability to challenge existing business models
 - o Knowledge of climate change
 - o Change management skills
- Climate change fully integrated into the company strategy, with capital allocation decisions, risk management approaches and disclosure to investors.
- Executive remuneration reflective of the company’s climate change targets and for competing incentives to be removed.
- Lobbying and public statements to the public, media and investors to be consistent with the companies stated climate plans, rather than sending mixed messages.

The time for action on climate change is rapidly decreasing to meet the Paris Agreement goals and limit global warming to relatively safe levels. Company boards, with support from investors, can, and must, position their companies to not only manage the multifaceted aspects of climate change-related risk but position the company for long-term value creation for shareholders and society.



“There are huge opportunities for Australian companies in the transition to net zero emissions,” says Hillis. “Investors want companies to capitalise on the transition, unlocking revenue and jobs for Australian communities. Investors are ready to back these opportunities.”

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For further enquiries contact

Bethany Noble

Bethany.Noble@igcc.org.au

+61 437 087 683

About IGCC

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors focused on the impact that climate change has on the financial value of investments and the opportunities created by the transition to net zero emissions. IGCC represents institutional investors with total funds under management of over \$2 trillion, and others in the investment community interested in the impact of climate change. IGCC members cover over 7.5 million people in Australia and New Zealand.