Leanne Bloch-Jorgense:

Welcome back to those rejoining and a warm welcome to those in the conference who are joining for the first time. I'm Leanne Bloch-Jorgense head of sustainability, client coverage here at NAB.

Leanne Bloch-Jorgense:

So we hope you can remain with us for most of, if not all of the afternoon sessions. And if you can't stay for all the sessions as we laid out earlier, a number of the sessions will be recorded and we'll be sharing the links to those recorded sessions after the event. And again, at a reminder that if you wish to submit a question during the next session, please do so via the Q and A found on your top right of your screen. So we have an exciting afternoon ahead with four more sessions and closing remarks, which will take us through to about 4:30. So we do hope that you can stay with us.

Leanne Bloch-Jorgense:

So to start this afternoon, we're joined by NAB's global head of sustainable finance David Jenkins. I think most of you know, David, he's been one of the industry pioneers and we're very excited to obviously have him at NAB, but also have him today lead this next panel. Thanks, David.

David Jenkins:

Thank you, and welcome back. I might start by introducing our panel. Based in Melbourne, we have Sarah Barker, who's partner and head of the climate risk governance team at MinterEllison. Many of you would know her she's recognized as one of the world's foremost experts on climate change, governance, finance, and liability risks. And she works closely with many of Australia's major banks, superannuation funds, and multinational clients to advise them on climate risk and other related issues. Thank you, Sarah.

David Jenkins:

On my left is Kate Bromley, GM of responsible investment at Queensland Investment Corporation. Kate works closely with the board and the executive team at QIC to ensure that strategically and culturally aligned to deliver commercial success in ways aligned to their sustainable outcomes and goals. She's intimately involved in the development of their sustainability strategy and works closely with banks, investors, and increasingly across a number of partnerships and industry collaborative initiatives.

David Jenkins:

And finally, Chris Newton on my far left is executive director of responsible investment at IFM. IFM is a large diversified fund manager that many of you would know owned by 20 Australian super funds managing over $180 billion of assets under management. They invest on behalf of super funds, pension funds, sovereign wealth, insurers, endowments, foundations, and unions. And Chris works closely with their investment teams enhancing what they do with regard to responsible investment and driving innovation across the business. Welcome to the panel.

David Jenkins:

So we're going to begin with Sarah I'll hand to Sarah, who'll set some context for the discussion and then we'll move into a more robust, deep dive.

Sarah Barker:

Thank you so much, David, and lovely to see you everyone. Sorry, I can't be there with you in person, Kate, Chris, and David.

Sarah Barker:

So, it might seem to you that climate change issues are changing very, very quickly at the moment and you are not alone. If you feel like that, even for those of us, who've worked in the space for a long time, the dynamics do seem particularly acute at the moment. So in this session where we've been tasked with taking you through the wash in terms of the what's changing, we thought it might be useful for you to get a bit of a context as to the why. Why is it changing so quickly? And that's the scene I'll set for you before we move into that panel discussion on the why. So why are investors, both debt and equity, putting so much pressure on investee companies in relation to climate change? Why are regulations changing so quickly? And why are we seeing such an uptick in strategic litigation?

Sarah Barker:

So that first bucket of why, why are we seeing so much movement from both debt and equity investors? And there, we need to think about the results of the Paris Agreement back in 2015. I'm sure you will have heard of the Paris Agreement whereby 196 countries around the world came together in Paris to agree of the criticality of maintaining global heating and well below two degrees centigrade above pre-industrial averages and to pursue efforts to limit warming to one and a half degrees above pre-industrial averages. Now, in order to reach those targets we actually need to totally decarbonize, de-mechanize, de-nitrous oxidize the entire global economy before 2050. And on route to that, we need to halve the economy's footprint of greenhouse gas emissions before 2030, which is now just seven and a half years away.

Sarah Barker:

And what we've seen in the last 18 months or so is this huge acceleration of policy all around the world where governments are now trying to give force or give life to the obligations to which they've signed up under the Paris Agreement and putting either in their policies or laws net zero targets consistent with their Paris agreement pledges. So much so that we now have 90% of the world's economy having a net zero policy or law, including Australia, including every state and territory in Australia.

Sarah Barker:

So what we've now seen with investors is a realization of two things. Well, first of all, the Paris Agreement is the mother of all market signals. It has catalyzed this seismic shift in the economic policies of 90% of the world's economy. And secondly, institutional investors understand no one is making any money if we tip over beyond what the scientists tell us, that's those safe levels of warming one and a half, two degrees above pre-industrial averages, understanding that we're already at that 1.1 degree Celsius above pre-industrial averages.

Sarah Barker:

And so what that has catalyzed is a series of net zero pledges by institutional investors. And you'll see, we've got the list of those up on the screen. Whether it's the Net Zero Banking Alliance, the Net Zero Asset Owners Alliance, the Net Zero Asset Managers Initiative. They now total pledges worth more than 140 trillion US dollars worth of assets under management. Including more than 43% of the world's banking assets under management. Including $ 60 trillion worth of asset manager firm. Including the world's largest investors like BlackRock, like Vanguard, like State Street. So these net zero pledges are quite new. They first came into being in April of 2021 and since then we've seen more and more institutions sign up to them, including NAB. NAB being a signatory to the Net Zero Banking Alliance.

Sarah Barker:

And this is the rub, the rub is having committed to these net zero initiatives that then obliges all of those institutions to, within 18 months of making that commitment, outline their own lending and investment trajectories that are consistent with one and half degrees. So in other words, within 18 months of signing, all the banks, all the asset owners, all the asset managers who are signatory to these initiatives will be publishing their own pathways by which they are going to halve their portfolio emissions footprint by 2030. So the so what there for you as a company is, how do we demonstrate to our banks, to our equity investors, how we are part of that solution, how we remain investible, how we also will be halving our own businesses emissions footprint before 2030, so that we are part of their solution for reaching your obligations under these initiatives.

Sarah Barker:

The second mega trend we're seeing is primarily regulatory in relation to shifts in disclosure and reporting expectations on climate change. And here I'll limit my comments to just those obligations that will apply directly to corporations. Although there are a number of other initiatives like the SFDR in the EU and the CCs new proposed rules for fund and prospectus disclosures in the US, but parking those obligations for institutional investors for now. So on companies themselves. The most significant recent development has been the release of the draft IFRS standards by the International Sustainability Standards Board, the ISSB may have published IFRS S1 and S2, S standing for sustainability. S1 relates to accounting standards for sustainability related financial risks and opportunities, and S2 relates exclusively to climate change.

Sarah Barker:

So overall, what these new sustainability reporting standards do is that they take that huge range of sustainability issues that we might have historically thought about as non-financial, nice to have, corporate social responsibility kinds of things. And squarely says to us, these have evolved to be issues that present financial risks and opportunities. We need to start treating them like the financial risks and opportunities that they are, and what they do is take the framework that you might have been familiar with under the recommendations of the task force on climate related financial disclosures that applies to climate change, and takes the principle set out under that regime, which relate to governance, strategy, risk management, and metrics, and targets, and applies them across all sustainability issues, beyond climate change, to biodiversity, to water, to labor rights, to modern slavery, et cetera, et cetera. And not only within your business fence lines, but across your entire value chain.

Sarah Barker:

So, you will need to consider the significant sustainability related issues across your value chain, disclose how you govern for them, you strategize around them, how you manage the risks. And very clearly setting an expectation that you then connect the dots to your financial statements. So having identified those risks and opportunities, what does it mean for the accounting estimates in your balance sheet? What does it mean for things like asset useful lives, for fair valuation, for impairment, for provisions, for onerous contracts, et cetera, et cetera.

Sarah Barker:

Now, I know that there are a number of voluntary reporting frameworks around, and it can be a bit of a death buy off alphabet soup. The reason that these are so significant and the reason that these are so different is because they are IFRS standards. And the way that our accounting standards promulgated by the Australian Accounting Standard Board, the AASB work here, is that they take the international accounting Stans promulgated by IFRS-

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Sarah Barker:

International accounting standards promulgated by IFRS and import them into Australia and apply them in our context as accounting standards. So more than ever before, we have the specter of these reporting requirements being codified as our own accounting standards, which are compulsory under law, under the Corporations Act, for any reporting entity.

Sarah Barker:

We've also seen similar rules recently being proposed by the securities exchange commission in the US on climate change and other corporate sustainability reporting directive standards proposed by EFRAG in the EU. It's just part of this broader trend towards actually connecting the dots between sustainability issues in your supply chain and what that means for enterprise value. It's not just regulatory, though. At the same time, we're seeing huge pressure from a contractual perspective where counterparties are demanding this kind of information from you on sustainability related metrics, targets, and progress.

Sarah Barker:

And that's for two reasons. First of all, they are looking ahead to thinking, "Well, how are we going to be able to comply with these new reporting standards that require us to consider these issues across our value chain?" And secondly, when your counterparties themselves have emissions reduction targets, including scope three targets across their value chain, how else do you achieve a mission reduction targets upstream and downstream other than by your contracts? So we are seeing a huge increase in reporting obligations under contract, as well as under regulation. And finally, the third driver, which is a bit of a consequence as well as a driver, we're seeing a significant increase in litigation, including strategic litigation on this front.

Sarah Barker:

The first category that we're seeing is in relation to greenwashing, and this is a term that's banded around a lot. What does it mean? It's essentially misleading disclosure in an environmental context. So whether you are overstating the business's green credentials, your capacity to manage climate related risks, or understating the risks that those issues pose to your business. So misleading disclosure in a climate change or sustainability related context. And we're seeing an uptick in areas like product and service labeling. You might have seen last week, the CEO of one of the world's largest asset managers, DSS in the EU, was forced to resign after the German financial regulator did a dawn raid on their offices in relation to a greenwashing claim that had been raised by a former member of staff. So we're seeing product and service greenwashing, we're seeing a lot of enterprise branding greenwashing allegations being raised, but primarily we are seeing an uptick in cases that are a product of target setting. Emissions reduction target setting.

Sarah Barker:

And really here, these relate to not necessarily the targets themselves, but what they imply. When you set a target, it implies that you are going to credibly pursue the targets that you've set. And this is where we're seeing the cases, that misleading suggestions as to the preparedness of the business to implement, credibly implement, and pursue the targets. So you might have seen, for example, cases by the Australasian Center for Corporate Responsibility against Santos in relation to misleading disclosure in its 2020 annual reports. The allegation there is that the statement that Santos had a clear and incredible plan to reach carbon neutrality by 2040 was misleading or deceptive because of the fact it omitted to disclose some of the material caveats and dependencies on its ability to reach that target. So things like the fact that it was heavily reliant on CCS technology, carbon capture and storage technology, that has not been commercialized as yet. Things like the fact that they had plans to significantly expand their emissions footprint before they then put it on a trajectory to reduction, etc.

Sarah Barker:

Not only that, we're seeing cases against directors personally. And these are cases for breach of directors duties to act in the best interests of the company to exercise due care and diligence. Not just directors of those companies that have high emissions footprints, but any company where the allegation is that you have failed to robustly manage the financial implications of climate change. That you've failed to strategize around and oversee risk associated with the policy risks, the stakeholder risks, involved in that transition towards net zero. And the most notable case there is one that's being filed by public interest law firm, Client Earth, against the entire board of Shell in the UK.

Sarah Barker:

So I'll stop there in the interest of time, but just a very high level overview of those three categories of driver that are really responsible for putting so much dynamic pressure on Australian companies to accelerate their own decarbonization activities. So, back to you, David,

David Jenkins:

Thanks, Sarah. Just touching then on the disclosure expectations and the rising bar in that regard, using the example of the ISSB, the intention is to create baselines in global comparability across corporate and reporting standards. There's a very tight timeline. They're mooted to be released at the end of 2022. In Australia, I believe ASIC has already signaled their intent to support the uptake of that. And the Australian accounting standard board and many Australian stakeholders were involved. You would have some insight into that.

David Jenkins:

What do you perceive the challenges to be? Because it will be something new, it's quite an aggressive timeline, and in the case of the TCFD not being mandatory, but voluntoldory, as you coined. I'd expect these won't be voluntoldory, it'll go the other way, and go the other way a lot quicker. So what are some of the challenges for corporates funds, institutional investors, and finance providers?

Sarah Barker:

Yeah, it is going to be a huge challenge. You're absolutely right, David. I sit on the AASB's advisory board looking at the codification of these rules in Australia as accounting standards here. And they are also watching them very, very closely. There is potential for them to be introduced as accounting standards under our law in 2023 or 2024.

Sarah Barker:

Now this is going to require reporting entities to fundamentally reframe their approach to information gathering, financial analysis, and disclosure. And I'm not confident that there are enough sustainability consultants, auditors, and lawyers in the world that are going to be able to cater to the huge demand that this is going to take.

Sarah Barker:

So the main challenge for disclosing entities is to start preparations now. To build capacity from the board, the audit and risk committee, the financial reporting team now. To look at your contracts and how you are going to start getting information from third parties in your value chains now because when it hits, it's not going to be voluntary or voluntoldory, it will be mandatory under our accounting standards.

David Jenkins:

Just turning to Chris and Kate. Then, beginning with you, Kate. Obviously the implications of those ISSB standards together with the proposed changes to the SEC rules have a very real impact on the portfolio companies that QIC as a global infrastructure investor invests in. How does that impact you in terms of what you're doing, how you work with those portfolio companies? And how is that different to the way you work with your domestic? Are they poles apart? Will you see them coming to the same standard? Are the metrics going to be different, from your perspective?

Leanne Bloch-Jorgense:

Yeah. Thanks, DJ. That's a really interesting question. And I think just taking a step back a little and picking up on Sarah's last point. I think, regardless of which regulatory regime or standards we are reporting under, as an organization, the preparation and the building of capacity at all levels of the organization is critical to be able to meet those disclosure requirements, and to meet them credibly.

Leanne Bloch-Jorgense:

So one of the focus areas we've been putting on across our business at the moment is on sustainability governance. And ensuring that right from the board down to management and our asset managers, we have very clear roles and responsibilities to be able to understand what is required of us under these incoming and existing regulations. And really ensuring that, as we commit to targets, that we are committing to targets in a way that is consistent with expectation. And where we're making statements that relate to the future, we are able to substantiate those.

Leanne Bloch-Jorgense:

So I think that there's such a lot in this regulation and the litigation risk that Sarah spoke to. Really a broad-based sustainability governance framework that covers everything from managing and addressing controls around potential greenwashing risks, to ensuring that the strategies that we adopt and build into our investment strategies to address sustainability issues and promote positive impacts are aligned to the expectations that are being enunciated through these regulatory changes. And that they are fundamentally addressing the issues, as Sarah spoke to, whether it's maintaining global warming to below a 1.5 degree outcome. Really it's drawing our efforts back to that and ensuring that we have the capacity to meet those challenges going forward.

David Jenkins:

And, Chris, you'd be facing very similar challenges I'd expect.

Chris:

Yeah. Look, it's interesting listening to the discussion, isn't it? Because there's a couple of words that keep coming up, is the credibility of what you are doing. Is it authentic? Are you actually setting out to do things, and actually, are you doing them? That's the number one thing, getting rid of the green washing aspect.

Chris:

The other word that I've picked up on, which is equally stressful for us as a global manager, is capacity. There's not enough people, as Sarah and Kate both outlined, to actually do the work and reporting aspect. But equally, for us over the last year and a half, a bit over a year and a half now, looking at SFDR for our global assets. And Australian assets, for that matter. And it's been a capability build for internal people, including myself as well. And we are genuinely that conundrum building the plane while we're flying it. And the regulations are changing and getting updated. And that's another challenge that's happening now, too. And interestingly around the-

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Chris:

... that's happening now too and interestingly around the geopolitics. Who would've thought that geopolitics would start to get involved into SFDR and sustainability reporting. And we have this challenge with Ukraine implications on gas. Then we have France arguing about nuclear energy, and the geopolitics are starting to happen. That's actually impacting the way we have to report and actually achieve our targets and strategies that we're coming out to. So it is an evolving space and quite a scary one for many of us. And I come back to that authenticity part, I think that is the critical thing that doing what you say you're going to do, I think does.

David Jenkins:

So, I mean, in both of your cases, too, being asset managers with in most cases, not absolute majority stakes, you are to a certain extent able to influence behaviors of those portfolio companies. How do you manage that process with the portfolio companies that are facing the exact same challenges, the rising disclosure expectations? You are being pressed for more, we as a bank, we've all committed to disclosing our trajectories and contributions towards meeting those 20, 30 interim targets. How do you manage that with your multiple stakeholders and those portfolio companies? I mean, Chris, perhaps we start with you.

Chris:

Yeah, look, you're right. It's a real challenge as well when you are at 20% or even if you're at 75%, because it comes back to or 100%. You need to influence stakeholders and you can build AI and you can build machines and all this sort of thing, but people run businesses and you need to bring them along. Fortunately or maybe unfortunately if you're a board director that thread of litigation actually has started quite a few years ago. And I remember the work that Sarah did at Minter is around this, around the fiduciary duty, that's actually helped. So the regulatory requirements are helping, but interestingly, as we did the European work, our American assets could not quite understand why we were applying a European standard onto the American assets. So it's a change management program as much as it's anything for us.

David Jenkins:

I mean, just picking up on that, so even before that you worked closely with several of your Australian assets to set carbon emissions reduction targets. I mean, with the benefit of hindsight, that was very forward thinking, but it has created capability. You have put the foundations in place. Do you see that as something that could be built on and is the process different?

Chris:

Yeah. To bring back a few scarring memories from that too but it was I think was saying, we've got to start now. We're going to start somewhere and get ready. And that process of setting reduction targets, I was reviewing them this morning before I came here because I had a feeling that might come up and some of the targets are way underdone. But the ability now, like you said, or the capability is built into some of our assets to know. So the Melbourne airports, the Brisbane airports, which we co-owned with QIC as well, they're ready to take that next step because they built it up. So you're right. It needs to start now and fortunately for us around emission reduction, data was being captured. The next phase is actually how is that being assured, which will be another layer of challenge.

David Jenkins:

And I guess then moving to UK, both QIC and IFM have made 20, 30 interim targets around emissions reduction and then signed up to those respective initiatives and the net zero ambition by 2050. How has that been different for QIC at the enterprise and fund level versus working with companies that you are looking to influence, but not able to dictate to? I mean that's clearly a challenge.

Leanne Bloch-Jorgense:

Yeah, absolutely. It certainly is a challenge where the less influence and control you have in trying to meet some quite immediate and relatively urgent targets. And I think again, some of the issues that Sarah has raised, that there is such a lot changing in this space. And I agree with Chris, it is a change management program underlyingly, but necessarily it is a task for more than the sustainability team within organization. It is a broad distributed effort right across the organization. And I think as well as having clear targets, as well as leveraging the regulation to provide some clarity around expectations, that there's a huge people and culture piece and capacity building opportunity through that influence that QIC and other investors has through those invested companies and building that capacity through support, ensuring that management teams are well configured to address these challenges, I think is just as important as providing the clear targets with the credible pathways to get there.

David Jenkins:

Just moving on then, if we perhaps dig into the climate litigation aspect, Sarah, I mean, that's something you're very familiar with. Australia is recognized as the second most active jurisdiction in terms of climate related litigation. People wouldn't be aware of that and you were very, very active and instrumental in the work that Noel Hutley did around his opinion and then the follow up advice around greenwashing. Who have been people behind these cases that have come to life and have they been successful and where do you think it's going from here?

Sarah Barker:

I find it useful to think about it in a contextual sense around why Australia is the silver medalist as far as climate litigation is concerned, with the evolution of climate change to be a financial risk. It necessarily then enlivens all of our commercial wars, whether it's directors duties, whether it's misleading or deceptive conduct, negligence, breach of contract, all of those things. So the fact that its climate change is now catalyzing these actions is really neither here or nor there, none of it is new law. And I think there's a number of factors behind why Australia is such a popular jurisdiction for this kind of litigation. First of all, historically, it's fair to say we haven't been progressive on the world stage as far as regulation and legislation goes to solve this issue. And so strategic litigants have been forced to think laterally and to use the courts as a mechanism to try and achieve the same means in the real economy.

Sarah Barker:

Secondly, our commercial laws are really quite permissive for plaintiffs. So it is relatively easy to bring a claim. For example, you don't need to show damage or loss when you're bringing a claim from misleading disclosure or breach of duty. You can seek declaratory relief. Not only that our plaintiff litigants in this space are very well funded. It's not the case where it might have been, 10, 15 years ago where Friends of the Earth had to pass the hat around and ask their members for $10 here, $ 15 there to try and fund these kinds of cases. These claims are being funded by multi-billion dollar philanthropics out of Europe, who themselves understand that our jurisdiction is particularly facilitated for these kinds of claims.

Sarah Barker:

Now, when we think about success, oftentimes people say, well, show me the judgment. And I think that's a very, very narrow way to think about success in these cases, because the reputational impact of having something like this brought against you personally, or your company, you've lied, you've deceived, you've breached your duty, you've been negligent, your processes aren't robust. You don't want that on your book. You don't want the cost, the management distraction, the legal fees. Not that's a bad thing people, the legal fees associated with having to defend these kinds of things and insurers are starting to crack down as well. They're looking at their D&O policies going, holy heck, we got burned by cyber on this because there's six year fat tails in their claims made, financial lines books in our D&O in our professional indemnity. We need to tighten this up. So for all of those reasons, it is certainly a serious and not immaterial prospect that brand name companies really do need to be aware of in Australia.

David Jenkins:

So just moving then on to the greenwashing topic, can you highlight to us some of the key areas that corporates need to be very much aware of, keeping front of mind, I mean, clearly here in Australia, we have the regulators through ASIC, ACCC and the clean energy regulator, all signaling greenwashing is a key focus area for surveillance. What should people be aware of? What can they do to prepare themselves so they don't run foul of the law?

Sarah Barker:

Yeah, absolutely. I find it useful to kind of break down what you need to think about into three buckets. What do you need to think about when you're setting targets? What do you need to think about when you're communicating targets? And what do you need to think about when you're then pursuing the targets and implementing the targets? So when you're setting the targets, you really certainly, as a board member, the director or an officer, you need to be kicking the tires and actively interrogating, okay, what is the robust methodology that has gone into that? Are the assumptions valid and robust? Do we have the capacity, that C word that both Chris and Kate mentioned again, do we have the capacity to follow through with what we are saying that we will be able to do, so that directors can discharge their obligation to act with due care and diligence in the best interest of the company.

Sarah Barker:

Then when it comes to communication, we need to think about two things. First of all, we need to think about the actual language that we use and make sure that we are actively disclosing any of the material caveats or dependencies that might stop us or on which our ability to achieve those targets are really based. But not only that, we have to be satisfied that both the representations themselves, but also what's implicit in it are based upon reasonable grounds, that we have reasonable grounds to support everything that we say in that communication, which comes back again to due care and diligence when you're interrogating, whether or not you have the capacity to breach the targets.

Sarah Barker:

And then finally implementation, you need to make sure that you're shifting strategy to be consistent with your targets. That there are resources dedicated to reaching the targets, that building capacity begin. That those who will need to execute them have had their capacity built, that they have the tools and resources that they need in order to do that. And there have been claims against, not NAB, but other Australian banks where the allegation has been that, you've set these targets, but we don't think you've followed through because here are some examples of lending activities since you set the targets that seem to be inconsistent with the behavior that your target signaled. So you need to think about what you do when you set them, how you communicate them, and then of course, how you implement them in a credible...

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Sarah Barker:

And then of course, how you implement them in a credible and robust way.

David Jenkins:

So just coming back then to Kate, again, talking about the global footprint and the investments and the geographic spread of these, how do you manage your portfolios for this future risk? I mean, with the advent of ISSB coming down the pipe going forward, how do you manage or look into the crystal ball to get ready for that?

Leanne Bloch-Jorgense:

It's a very good question, Dave. Excuse me. I'm just having a dry throat moment.

Leanne Bloch-Jorgense:

Because I think the approach really looks different depending on which asset class you're really looking at, where you're invested in assets, real assets, where as an investor, you have a far greater degree of control. Clearly the communication with the company is a lot more sort of detailed. And there is that ability to really understand the strategy that is in place. I think having an understanding for the particular risks and opportunities that the relative level of ease or difficulty of a transition pathway as it relates to a particular company in a given industry, in a given part of the world, and really having that ability to think through what that looks like, and holding the company to account on the basis of what its particular transition pathway looks like, sort of helps to think through what some of the challenges might be.

Leanne Bloch-Jorgense:

As Sarah's mentioned, understanding the level of technical readiness of any technology that is required to push a company along towards achieving that net zero target sort of helps. So building up a very clear picture of what that transition pathway looks like. And then I think when we're looking at portfolios of, listed portfolios, again, we're already looking at the level of commitment that companies are making again by industry level, which companies can we expect to have made progress, or a certain amount of progress at a particular point in time, and really holding those companies to account on that basis. But I think having an understanding of what a credible pathway looks like and how that plays out in practice helps to understand how the various companies and moving parts of a portfolio could perform under a net zero target.

David Jenkins:

Here's one, this might be a bit tricky, Sarah, but what's the perspective for sovereigns and semi sovereigns that have set their own targets. The states in Australia have each set emissions reduction targets that can only influence not indirectly influence them in essence, what's the risk of litigation in that case, if they don't actually meet these targets, given what you've just explained.

Sarah Barker:

There've been cases already in Europe, in particular, in the United Kingdom in not necessarily in failing to meet a target, but in failing to comply with the administrative architecture that gets set out when you, when you put a target in legislation. So it's not the case where there might be a law that gets put in place that a particular state has to reduce its emissions by 50% by 2030 without then considering, okay, well, how are we going to get there? What are the things like the interim targets that we need to set along the way? What are the areas of policy that we need to examine? What are the areas of administrative decision that are relevant, et cetera, et cetera. So it's not so much a failure to hit the target, but a failure, again, to credibly pursue the targets that you've set out in all.

David Jenkins:

So just back here, and maybe here's a question for you, Chris, that's come from the audience. What are some of the consequences for being at laggard as it relates to addressing climate risk? And we've heard the litigation risk from Sarah.

Chris:

That's great. Because I was actually about to chime in before about how we've heard regulatory risk reporting, risk litigation risk, and this might be an answer to the question about laggards is there's actually another pressure that helps us as investors. And it's actually a challenge for companies and that's the stakeholder risk, right? Your own staff. If you are a laggard, you will lose potentially your next generation of leaders, potentially alternatively, your local community, your suppliers, your customers will punish you at the marketplace or at the bowser if it's a petal company and you haven't shifted quick enough, I think that's actually a really useful part around this whole debate as well around what are the stakeholders? What are their voices and what are they saying? Because if you are a laggard, you'll start to lose, you'll be impacted on your supply chain. You'll be impacted on who you're selling your product to.

Chris:

And actually you will also, the other stakeholder here, of course, the regulators and the governments and so on, who are all coming in on companies. So there's serious risk of when you are falling behind, you're going to hit. And then internally, like I said, the staff members and the engagement scores, I think that part of being part of a business that has a shared purpose and is contributing to a greater outcome beyond just the profit line is actually a really important motivating factor. So there's a lot of risks with falling behind, not just the financial, and actually interested when Sarah mentioned the director, insurance, DNO insurance, because that is something that I found when I've sat at the board table from cyber risk to climate risk, how do you reduce your premiums? You mitigate and you manage the risk and hopefully you'll get a reduction in premium. So there's a whole range of things which will hit you if you start to fall behind confronting the challenge, I think I could go on for a long time.

David Jenkins:

Sarah question for you and appreciate this may be quite in depth, but the draft ISSB standards are going to impact the entire economy. In terms of corporate Australia, they've been relatively quiet about insured emissions, such as the carbon footprint, as it relates to fossil fuel projects that have been insured, is that likely to change and become part of the regulatory landscape either through the ISSB or separately?

Sarah Barker:

I suppose two answers there. I mean the one thing that we are seeing with things like the ISSB is this broadening to the entire value chain. I mean, and as the banks, as you yourself know, David, that expansion into financed emissions and the insurers are under huge pressure now in terms of the insurance that they provide to high emitting assets. Or something that hasn't been talked about much in Australia as yet, is that the Lloyd's market has announced that from 2030, no member of that market will be involved in insuring thermal coal, Arctic oil and gas, and unconventional oil and gas. So that's not a regulatory impost, but coming back particularly to what Chris has said from a reputational perspective, from an asset stranding perspective, markets are starting to move. And I think even though we now have this shift in regulations starting, the market is so far ahead on this. So if you're waiting to respond to a regulatory baseline, you're probably not going to be strategizing to maximize wealth in this space.

David Jenkins:

Okay. Here's one that applies equally to Chris and Kate at your respective companies, [inaudible] and QAC, given your short term targets about emissions reduction, looking to invest directly into assets or companies that have the capacity to become sequesters of carbon or create positive carbon benefits. In addition to emissions reduction technology, and other investments, renewable energy, and the like. I'm presuming given the agriculture code, it's probably an area that QAC has been exploring with some of your recent forays into that space.

Leanne Bloch-Jorgense:

Yeah, absolutely. I think any climate strategy requires both types of investment, and any net zero emissions target or, or carbon positive target in the future certainly requires investment into both types of those solutions. So I think again, understanding whether it's the transition story for businesses that have the opportunity to reduce emissions and change their business practices, understanding the different types of transition story that play out and the associated risk with those is essential, but also understanding the potential and the capacity to bring about that sequestration and take that carbon out of the atmosphere. I think building the capacity to assess both strategies and how those blend into a portfolio is critical.

David Jenkins:

And Chris?

Chris:

Ultimately, that's the pivot, the third prong, isn't it, you reduce submissions, you mitigate your risk and adaption, but you allocate capital. And if you're not allocating capital to climate solutions, you are not going to be maximizing wealth generation for all of us, for the millions of Australians we invest on behalf of. And I think that's a critical component and that's the opportunity that we're all talking about too. So definitely.

David Jenkins:

Okay. So one final question then to wrap up and I can't leave without touching on the interesting topic of the use of carbon offsets as part of a decarbonization strategy. How do you view the use of offsets of different, acknowledging there are different types and qualities as part of a broader decarbonization strategy?

Chris:

Really quick for right. Oh, sorry. Jump really quickly. Last resort, offsets. They are part of a solution. Definitely. And we tend to focus on where there's some degree of connection to your business. We've avoided now locality, but connection to your business in your supply chain. So where we can invest directly with offsets that there's a connection, we'll do that.

David Jenkins:

And Kate?

Leanne Bloch-Jorgense:

I absolutely agree with Chris. Last resort, but high integrity. And I think looking at the types of credits where you can see that the underlying activities are having the effect that you're looking for. And there is plenty of information transparency around the underlying projects associated with those offsets.

David Jenkins:

Great. Thank you both. And thank you, sir. Joining us from Melbourne, likewise to Kate and Chris here in Sydney. And I'll pass back to you now. I thank you very much.

PART 4 OF 4 ENDS [00:47:25]