

Sustainable Governance in the Utilities Sector

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PPA Conference 2023



Collaboration on Energy and
Environmental Markets



UNSW
Institute for Climate
Risk & Response

What will we cover?



Governance and Sustainable Governance



ESG and why?



Trends in Business Reporting - Sustainability Standards – S1 and S2



What lies ahead for your organisations

8 Core Principles of Corporate Governance (ASX 2019)



Lay solid foundations for management and oversight



Structure the board to be effective and add value



Instil a culture of acting lawfully, ethically and responsibly



Safeguard Integrity of corporate reporting



Make timely and balanced disclosure



Respect the rights of security holders



Recognise and manage risk



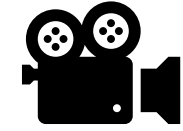
Remunerate fairly and responsibly

Sustainable Governance

- How an organization is managed with written or unwritten rules using a sustainability lens?



ESG and Why?



What is Environmental, Social & Governance (ESG) – Investor lens driven by UN PRI (2006)



- ESG grew out of investment philosophies clustered around sustainability and, thereafter, socially responsible investing.
- Early efforts focused on “screening out” (that is, excluding) companies from portfolios largely due to environmental, social or governance concerns
- More recently ESG has favourably distinguished companies that are making positive contributions to the elements of ESG, premised on treating environmental and social issues as core elements of strategic positioning.
- While climate figures prominently in ESG discussions, there is no single list of ESG goals or examples, and ESG concepts often overlap. That being said, the three categories of ESG are increasingly integrated into investment analysis, processes and decision-making.

Source: Robeco - <https://www.robeco.com/au/key-strengths/sustainable-investing/glossary/esg-definition.html>

Customer expectations also changing with respect to choice of their financial institution based on ESG factors



83% of Australians expect their bank account and their super to be **invested responsibly and ethically** and for over 80% of the population, this means that their investments deliver a positive impact to the world.

Three in five (61%) Australians would be motivated to **try to save and invest more** money if they knew their **savings and investments made a positive difference** in the world. This is an eight point increase on two years ago (2020 53%).

Five out of six Australians believe it is important their super fund or **bank commits to reducing greenhouse gas emissions (84%)**, sets **targets** for emissions reductions (83%), and 81% want to see them pledge to achieve net zero by 2050.

72% of Australians are concerned that investors who claim to be responsible investors engage in **greenwashing, particularly the younger generations (80% of Gen Z compared to 66% of Baby Boomers)**, and this **stops 65%** of Australians from **switching to an ethical bank.**

Consumers still seek independent certification or labelling. **Three quarters (75%) of the population is more likely to invest in responsible investment products that have been certified or labelled as responsible** by an independent third party.

FIGURE 14 Top barriers to switching to a responsible or ethical bank

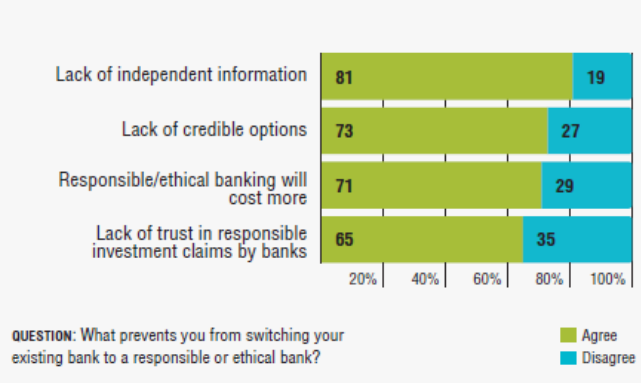


FIGURE 10 Proportion of Australians who believe it is important that banks and super funds make non-financial, sustainability-themed commitments and targets

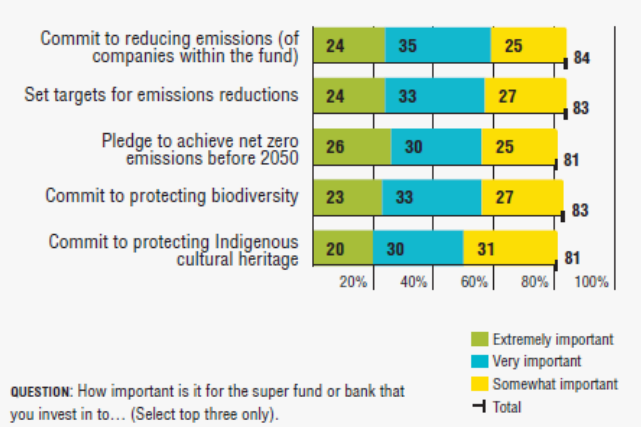
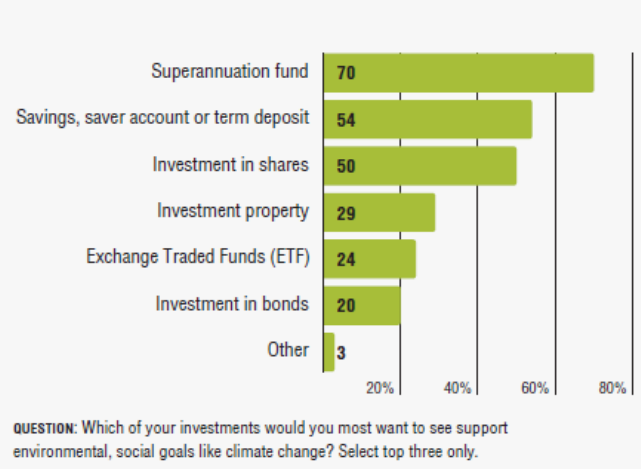


FIGURE 9 Financial products that consumers most want to see invested responsibly



https://responsibleinvestment.org/wp-content/uploads/2022/03/From-Values-to-Riches-2022_RIAA.pdf

So what is included in ESG management and reporting?



Our impact on the **world** we live in

- Greenhouse gas emissions
- Energy consumption
- Climate risk
- Environmental impact/ incidents
- Environmental compliance
- Biodiversity
- Waste management
- Water security and management

Our **commitment** to future generations

Our **contribution** to the communities we operate in

- Modern slavery
- Sustainable procurement
- Customer engagement
- Health & Safety and wellbeing
- Incident and crisis management
- Diversity and inclusion
- Community investment/contribution
- Indigenous engagement
- Talent retention & attraction

How we **share** our returns

Traditional View

- Governance over E&S matters

More recently

How we **conduct** ourselves

- Technological innovation & disruption
- Cyber security and data breaches
- Privacy
- ESG Compliance, Governance, code of conduct and ethics
- Ethical behaviour
- Tax strategy
- Bribery and corruption
- Lobbying

Our **licence** to operate

Source KPMG

Why is ESG management and reporting so important?



KPMG asked Australian business leaders and ESG experts to look forward and predict ESG business value drivers in 2030

<https://assets.kpmg/content/dam/kpmg/au/pdf/2022/esg-predictions-2030.pdf>

- **Headline from 2030 predictions**
'Organisations that transform their business models over the next decade and put ESG front & centre of their operations/ culture, will reap rewards'

2

ENDREW WILKINS IMPACT



- **70% of CEO's experiencing increased demand for ESG reporting from investors** (*KPMG Australia 2021 CEO survey*)

CONSEQUENCES OF POOR ESG PERFORMANCE

ESG-ruptcy leads to blacklisting and personal liability
Demand for transparent and proven ESG policies and practices will lead to the introduction of mandatory ESG ratings and certification processes, with consistent non-compliances met with severe consequences.



TECHNOLOGY

Digital Twins enable a new ESG reality
There will be broad uptake of Digital Twin technology, enabling organisations to monitor and adjust their business activities in real-time.



65%
OF INTERNATIONAL DEALMAKERS BELIEVE ESG IS A KEY CONSIDERATION WHEN MAKING INVESTMENTS AND IN MERGERS & ACQUISITIONS (M&A) DECISIONS.

DATA

The Great ESG Data Boom
An exponential increase in the amount of ESG data will drive accountability and accelerate progress against organisational ESG objectives and the United Nation's Sustainable Development Goals.

GEOPOLITICS

New cracks form in the geopolitical landscape
Defining a global ESG policy will be fraught with danger for transnational corporations as world governments, trade consortiums and political blocks increasingly assert their influence to progress their individual agendas.



57%
OF CONSUMERS PLEDGED TO SHOP AT STORES WITH A STRONG FAIR TRADE COMMITMENT. FACTORS INCLUDED: NO CHILD LABOR, TACKLING POVERTY AND PROTECTING AGAINST DEFORESTATION.

CONSUMERS

The rise (and the fall) of the ESG Cowboy

As the lucrative nature of successful sustainable business models become apparent, bad actors will attempt to exploit the 'wild ESG west.'

PRICING

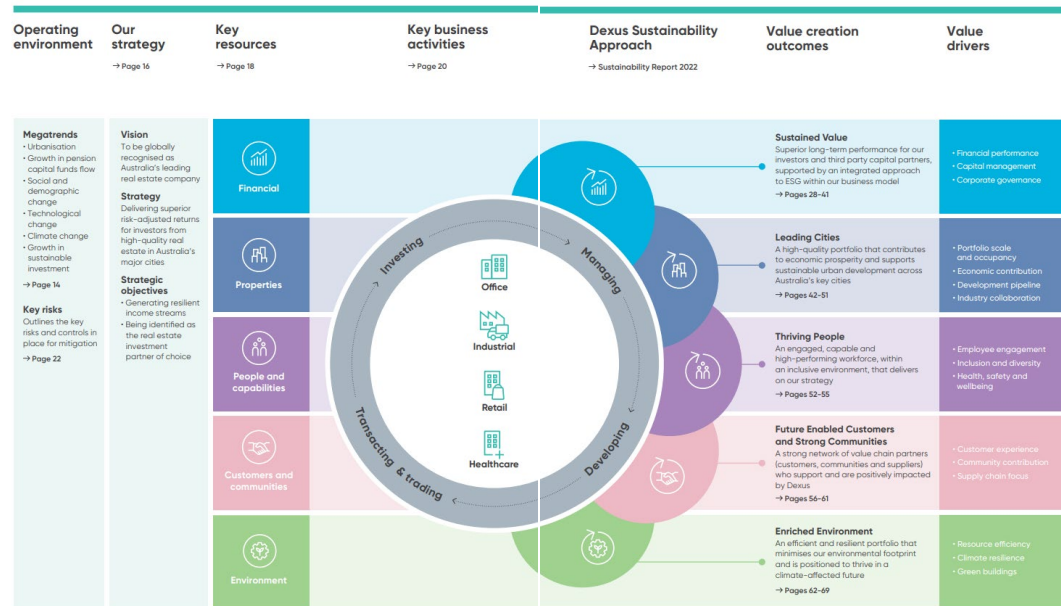
ESG doesn't come for free and it certainly doesn't grow on trees

ESG products, services and company valuations will reflect the costly nature of ESG compliance and practices.

How do ESG matters impact Enterprise Value?

- **Definition: Enterprise value creation process** – value may be created, preserved or eroded over time by an organisation. Value includes financial value creation.... It also encompasses the other 5 Capitals of the <IR> Framework – manufactured, **human, social & relationship (S&R), intellectual and natural** – and the outcomes an organisation’ business model may have on these.
- Provide investors with information on E (Natural Capital); S (S&R Capital) and G (Active Governance process - part of Intangibles) matters that are material to Enterprise Value creation so they can determine impact on cash flows, risk factors (WACC) and terminal value in their DCF/ valuation.

How we create value



Links to narrative/ KPI disclosures on Outcomes achieved relating to material E, S, & G matters as they relate to sustainable value creation

Our capacity to create value depends on the efficient use of natural capital, building resilience to environmental risks and leveraging emerging opportunities driven by climate change.



Board focus

- Environmental sustainability is a focus area for the Board and Board ESG Committee. In FY21, the Board and Board ESG Committee were involved in:
- Endorsing the Dexus 2020 Sustainability Report
 - Discussing sustainability improvement plans for capital and operating expense items
 - Discussing results of ESG benchmark surveys
 - Discussing progress in relation to Dexus's supply chain and actions to prevent modern slavery
 - Reviewing Dexus's approach to reporting against the United Nations Sustainable Development Goals
 - Discussing group's progress in relation to 2021 environmental targets
 - Discussing bringing forward Dexus's target to achieve net zero emissions
 - Discussing Customer Sustainability Framework
 - Discussing activities of the Climate Resilience Working Group
 - Overseeing 2021 materiality assessment

Why Focus on ESG?

Right thing to do

Creates value to the organization

Improve brand and reputation

Gain trust of stakeholders

Better access to funding

Trends in Sustainable Business Reporting



In an era where the impacts of global pandemic, climate change and growing inequality are intensifying...

...the concepts of sustainability and intangible value have grown in importance.

Capital markets demand evidence-based, market-informed and transparent information to deliver long-term value to shareholders while also helping secure the future of our people and our planet.

June 2021 – Merger of IIRC and SASB to form the Value Reporting Foundation



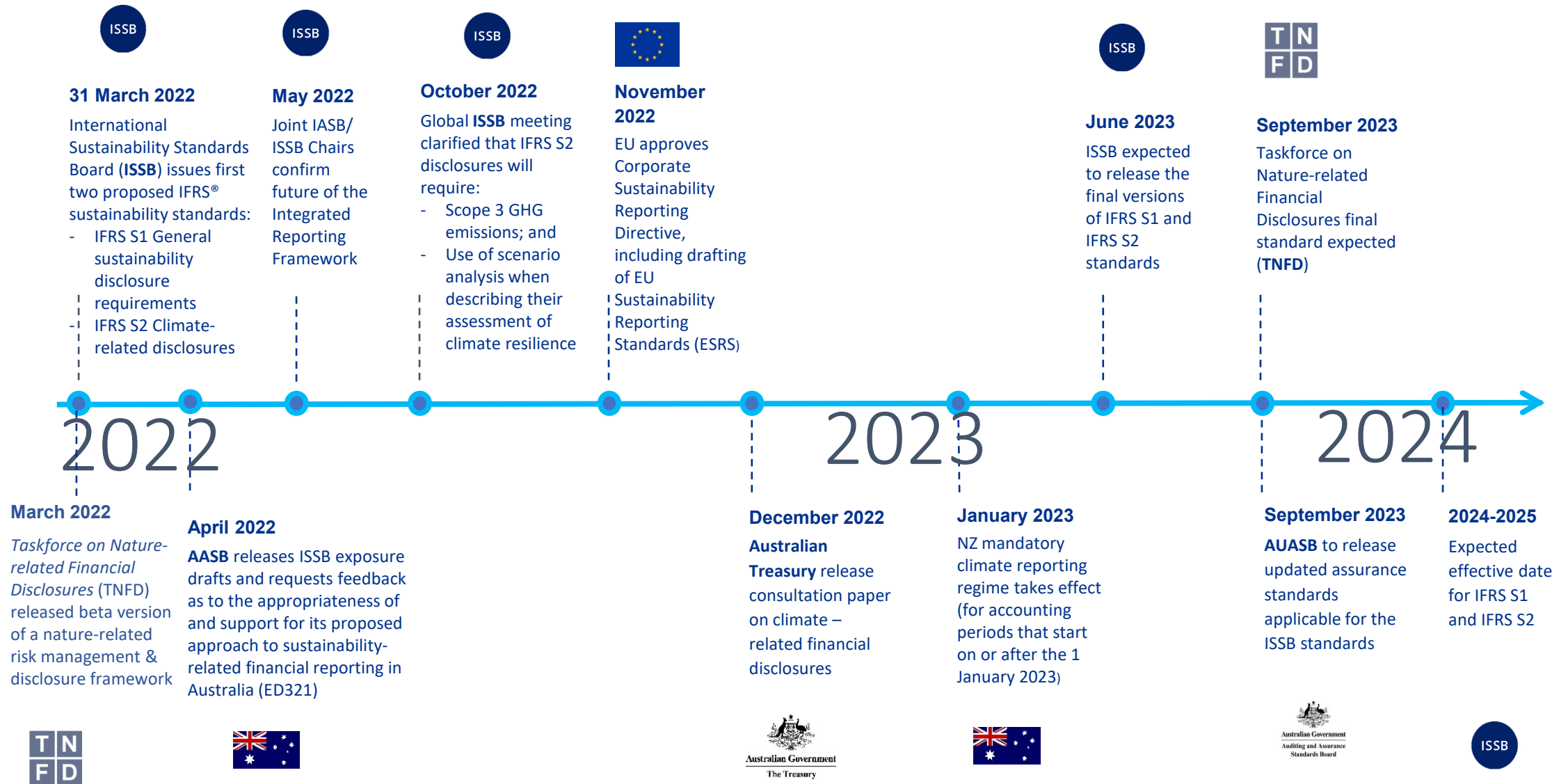
COP26 - International support



“ Finance Ministers and Central Bank Governors from 40+ jurisdictions* from 6 continents joined the UK in publicly welcoming the announcement of the establishment of the ISSB and its work programme to develop a set of internationally consistent, high-quality, and reliable baseline standards for disclosure of sustainability-related information on enterprise value creation. ”

* Australia, Brazil, Canada, Chile, China, Costa Rica, Egypt, Ethiopia, European Commission, Fiji, France, Germany, Greece, Guatemala, India, Indonesia, Italy, Jamaica, Japan, Kenya, South Korea, Luxembourg, Maldives, Mexico, Morocco, Netherlands, New Zealand, Nigeria, Paraguay, Philippines, Russia, Saudi Arabia, Seychelles, Singapore, Spain, Switzerland, Tonga, Turkey, UK, Uruguay, USA

Developments over the last year, and coming up...



COP 26, the establishment of the International Sustainability Standards Board (ISSB)



UN CLIMATE
CHANGE
CONFERENCE
UK 2021

IN PARTNERSHIP WITH ITALY

At COP26, IFRS Foundation announced:



1. Formation of the International Sustainability Standards Board (ISSB)



2. Consolidation with CDSB (completed Feb 2022) & Value Reporting Foundation (June 2022)



3. Publication of climate and general disclosure prototype requirements

*“I also want to highlight the very important **IFRS Foundation** proposal to establish a **new, global sustainability standard setting board** ...This would initially focus on climate disclosure standards centred on the “enterprise value” of businesses.... establishment of the new standards board at COP26... it would build on the IFRS Foundation’s proven standard-setting process for financial accounting... The promise is to use this framework to **institutionalise the TCFD recommendations and other existing standards to create a comprehensive, harmonised reporting framework. IOSCO is in a unique position to assist the IFRS Foundation in this effort...**”*

Ashley Alder, Chair of the International Organization of Securities Commissions (IOSCO) 2021

- TRWG already working on approach for ISSB to work with the IASB to develop a new global ‘connected’ corporate reporting system focused on enterprise value creation
- The only framework focussed on enterprise value creation is the VRF’s <IR> Framework, which from June 2022 will be intellectual property of the IFRS Foundation.
- The <IR> Framework is already required in several countries and is being applied by some 3,000 large listed companies globally.

About the IFRS Foundation

- **Not-for-profit, public interest organization**
- **Sets globally accepted accounting standards – IFRS Standards**
- **Required in 140+ jurisdictions, permitted in many more (incl. 500+ private issuers in the US)**
- **Public accountability through global monitoring board led by IOSCO**
- **Extensive, inclusive due process.**



Role of International Sustainability Standards Board (ISSB)



Develop global baseline of sustainability disclosure standards



Focus on meeting the information needs of investors



Companies to provide comprehensive sustainability information for the global capital markets



Facilitate the addition of requirements that are jurisdiction-specific or aimed at a broader group of stakeholders

IFRS S1 General Requirements



In March 2022, the ISSB released its first two proposed IFRS sustainability standards:

- **IFRS S1 General sustainability disclosure requirements**
- **IFRS S2 Climate-related disclosures**

Final version of the standards was released in June 2023.

Broadly speaking, **the Task Force on Climate-related Financial Disclosure (TCFD) have been adopted as the ISSB's base disclosure framework** for not only climate-related financial disclosures, but also all future sustainability-related financial disclosures.

Financial materiality will continue to determine what to disclose.

IFRS S1

- Reporting should present **'connected information'** i.e. how sustainability-related risks impact, or might impact on financial performance or prospects
- Sustainability Accounting Standards Board (SASB) Industry-specific ESG metrics and CDSB Framework to inform what to report
- **>50 requirements** across 4 pillars



Governance

- Who's tasked with governance?
- Skills and competencies
- How often they're informed
- Remit of oversight (targets, risks, opportunities)



Risk Management

- Process for identification and prioritization
- Assessment of likelihood and impacts
- Assumptions
- Monitoring and management



Strategy

- Sustainability risks/opportunities impact on business model, strategy, cash flows and capital, financial position and performance
- Resilience of strategy
- Quantitative and qualitative progress of plans



Metrics and Targets

- Specific metrics not identified
- Guidance provided on how to report on metrics
- Any targets or revisions to targets

Proposed IFRS S2 – Climate-related Financial Disclosures

IFRS S2

- Governance and risk considerations align to IFRS S1 but with a focus on climate-related risk
- Will require **Scope 3 greenhouse gas emissions, and use of scenario analysis** when describing their assessment of climate-related resilience



Strategy

- Same as general disclosure, plus:
- How climate-related targets will be resourced and achieved
- Planned adoption of new technologies
- Adaptation and mitigation efforts, including use of offsets
- Use of climate-related scenarios (which were used, why, and whether they are Paris-aligned)
- Key inputs and assumptions into the scenario



Metrics and Targets

7 consistent for all industries:

- Greenhouse gas emissions
- Transition risks
- Physical risks
- Climate-related opportunities
- Capital deployment
- Internal carbon price
- Remuneration

5 – 10 industry-specific metrics (across 68 industries):

- Banks – incorporation of ESG into credit risk
- Road transport – total fuel consumed
- E-Commerce – GHG footprint of product shipments

Future areas of focus

As part of planning, feedback has been sought on topics. Next priorities likely to be:

- **biodiversity, ecosystems and ecosystem services**
- **human capital**, with an initial focus on diversity, equity and inclusion
- **human rights**, with an initial focus on labour rights and communities' rights in the value chain
- **connectivity in reporting**, joint project with the IASB building on Management Commentary and Integrated Reporting Framework



Industry Specific Standards

- **Renewable Energy in Electric Utilities & Power Generators Industry is under development by SASB**
- **<https://sasb.org/standards/process/projects/renewable-energy-in-electric-utilities-power-generators-industry/>**

How are these changes being considered in Australia?

Australia's positioning with regard to climate, and more broadly sustainability reporting, has been developing in the last year and continues to take shape. **Treasury, the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB)** have all been actively consulting. **First reporting is expected for the 2024-25 financial year** but entities that will be required to apply the changes first are unclear at this time.

Treasury

Climate related financial disclosures

- In December 2022, Treasury released a **Climate-related financial disclosure Consultation paper**, requesting feedback on their initial views on the design and implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia.

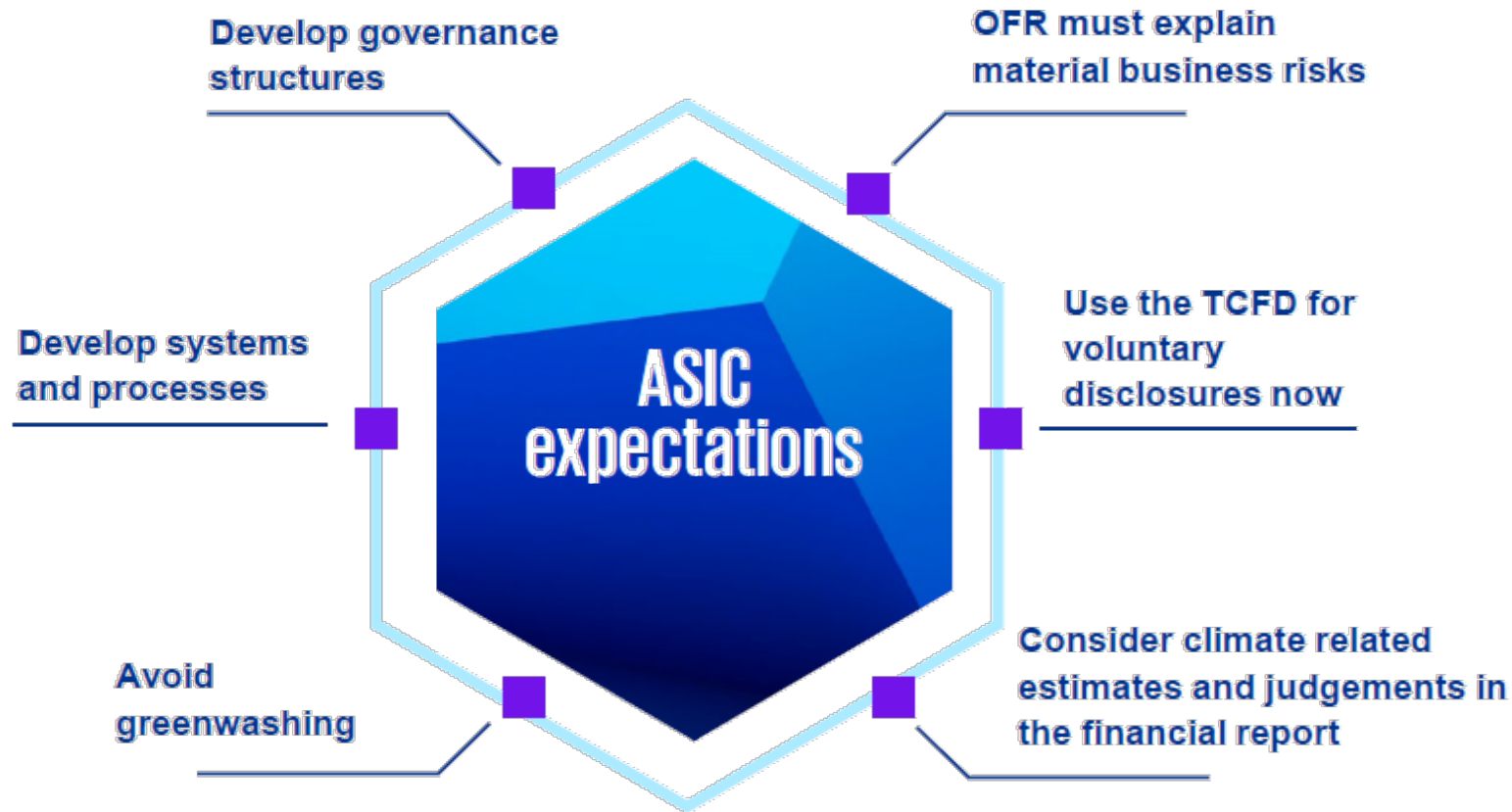
Mechanism for sustainability standards

- The consultation paper confirmed the **AASB, AUASB and FRC** as the entities **responsible for developing sustainability standards, auditing and assurance standards for sustainability purposes** and providing strategic oversight.

AASB

- AASB has **appointed specialist sustainability partners** to prepare for future reporting changes.
- Future disclosure requirements were discussed at the AASB's February 2023 meeting.
- The AASB **proposes a climate-first approach**.
- The Board confirmed decision to develop a separate suite of sustainability reporting standards, **using the work of the ISSB as a foundation** (with AU modifications where relevant) and **focus on the for-profit sectors** initially.
- Timelines has been outlined, however dependent on the ISSB's progress.

ASIC's recent activity



According to ASIC, greenwashing, in relation to investments, is the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly,

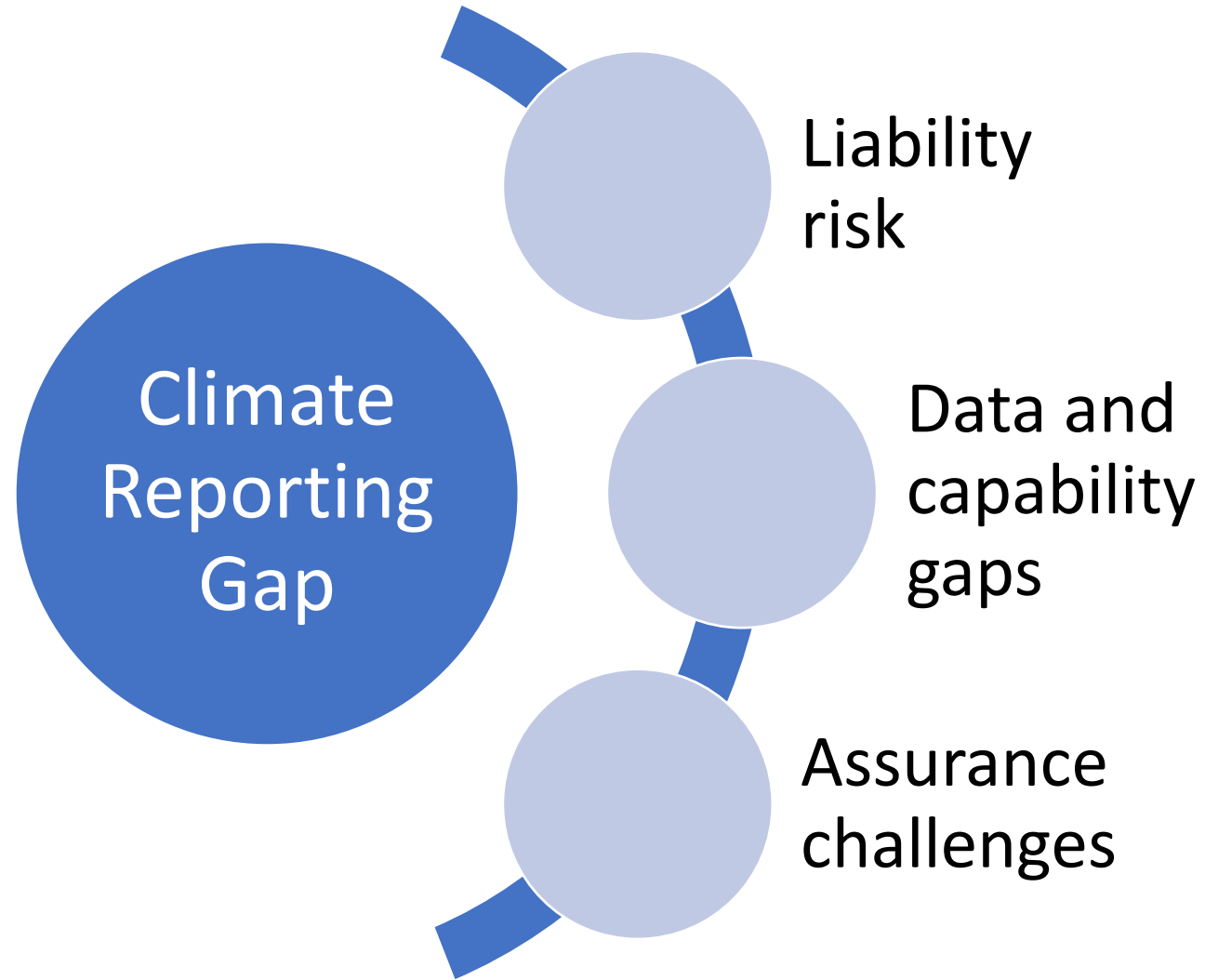
Questions



Is your organization reporting already reporting some climate change disclosures?



If so, what frameworks are you using?



Thank you

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Open discussion on what lies ahead for your organization

