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Value of Integrating Climate Risk Across the Business

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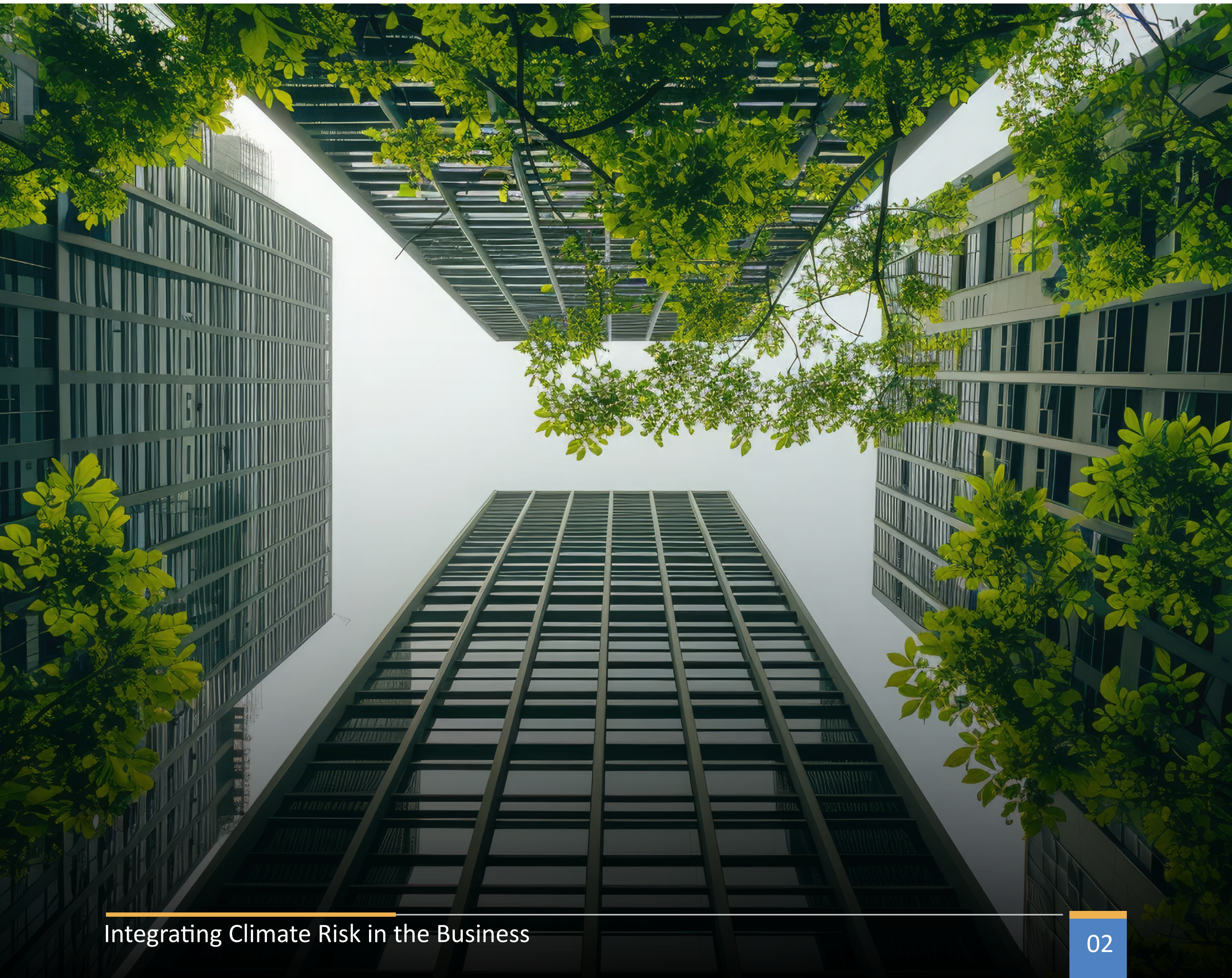
Executive Briefing

Mandatory climate reporting has officially arrived for Australian businesses and with it, a monumental change to the corporate reporting landscape. The introduction of AASB S2 Climate-related Disclosure (AASB S2) to the Australian regulatory landscape from January 2025 provides a catalyst for Australian businesses to ensure climate risk is embedded at the heart of corporate strategies and decision making. In essence, becoming an integral and accepted part of corporate processes and governance.

In response, the TCS GoZero Hub, a collaboration between TCS and Macquarie University, have produced the 'Value Of Integrating Climate Risk In Business' report which helps Australian businesses understand the benefits of viewing climate risk management through a value driven lens rather than focusing on compliance and disclosure in isolation.

While this briefing is designed to provide the reader with key learnings, we encourage it to be read in conjunction with the full report, which provides a deep dive into developing a best-in-class climate risk management framework, outlines how to integrate climate risk across all functions of the business to generate improved business outcomes, showcases industry leading best practice case studies, and identifies what the next steps needs to be for your business.



AASB S2 – A catalyst for integration of climate risk across the business

Mandated or not, one of the most powerful actions a company can take today, is to shift its mindset on climate risk from one of compliance and an additional task that sits separate to the business to one of value generation that is fully integrated across all aspects of business decision-making.

Addressing climate risks that are relevant to your business presents a unique opportunity to innovate, adapt, and thrive in a changing world. Physical risks, such as more frequent and severe extreme weather events, and transitional risks, like regulatory changes and shifting market preferences, can serve as catalysts for transformation and resilience.

Armed with the right knowledge, technology and partners, companies can use this moment to build organisational resilience and reputation and drive long-term shareholder value in a world that needs to shift to rapid decarbonisation.

Benefits for a company integrating climate risk into decision making

Long term viability

identifying which parts of direct operations and the value chain are most vulnerable to climate risks, both physical and transitional, will enable companies to be active rather than reactive. This can ultimately lead to better financial performance and protect the organiszation's long-term resilience

Strengthen stakeholder relationships

Building climate change transparency and accountability will cultivate stakeholder trust within the organisation, with suppliers and customers externally through collaboration to introduce climate considerations into related contracts or products, as well as with the community through knowledge sharing engagement and collaboration

Access to capital

Investors are increasingly prioritising climate-conscious companies. Climate-related disclosures inform investors not only on risk and financial impact but also how a company is integrating climate into all aspects of their business (e.g., the details outlined in a Climate Transition Plan). This in turn reduces uncertainty and positively influences a company's investment attractiveness. This level of information also makes it more likely to qualify for sustainable financing which often comes with lower interest rates compared to traditional financing options.

Capitalise on emerging market opportunities

By necessity, companies need to identify the value of climate opportunities when aligning with reporting requirements. This means that by integrating climate risk and opportunities into existing ERM frameworks and business strategies, businesses can identify new markets and growth sectors with increasing demand for sustainable products and services and drive innovation within their products and services. This in turn can help to drive a competitive advantage in the market

Strengthening IT infrastructure

Using climate risk as a driver, businesses can refine existing IT systems to improve the comprehensiveness, rigour and traceability of data for reporting, real-time monitoring and advanced analytics. Businesses can also access specialist tools and external data sets to support the process and decision making, and enhance the effectiveness of climate risk management in an enterprise.

The key to climate-risk integration sits with the Board and C-Suite

If a business holistically shifts the mindset from one of compliance to one of value creation, then addressing climate risk becomes so much more than a compliance tick box exercise and rather creates a unique opportunity for businesses to innovate, adapt, and thrive in a changing world.

A strong governance framework is key to unlocking these opportunities. However, success also depends on recognising and leveraging the unique contributions each C-suite member can make in building a governance structure that effectively addresses the risk requirements.

Board	CEO	CFO	CRO
Governance and Oversight: Ensure compliance with AASB S2 and integrate climate-related risks and opportunities into the company's strategy and forecasts. **Strategic Direction and Resource Allocation:** Set climate-related targets, align them with long-term goals, and allocate necessary resources. **Risk Management and Reporting:** Set the company's risk appetite and oversee the evaluation, monitoring and visibility of climate-related risks, to ensure accurate and timely disclosures The **Directors' Declaration** is a critical part of the AASB S2 disclosure report that must be signed off by the Board. The declaration confirms that the climate-related disclosures (such as the climate statement and notes) comply with AASB S2 and the Corporations Act	**Leadership and Vision:** Set the tone at the top, integrating sustainability into the company's vision and strategy. In essence becoming the climate protagonist fosters a culture of sustainability, and encourages innovation to address sustainable outcomes. **Resource Allocation and Operational Oversight:** Ensure necessary resources are available and oversee the implementation of climate-related initiatives across the organisation. **Stakeholder Engagement and Reporting:** Engage with stakeholders and ensure accurate, timely climate-related disclosures	**Financial Oversight:** Quantifies the financial impact of scenario analysis and climate risks and opportunities on cash flows, access to finance, and cost of capital. **Data Management and Reporting:** Oversees the collection, analysis, and reporting of climate-related financial data, ensuring the completeness and accuracy of disclosures **Collaboration:** The CFO works closely with other executives to align the company's climate-related strategies with its overall business objectives. E.g., setting and monitoring climate-related targets and ensuring that these targets are integrated into the company's financial strategy.	**Risk Identification and Assessment:** Responsible for identifying and assessing both climate-related physical risks (e.g., extreme weather events) and transition risks (e.g., regulatory changes) that could impact the company's operations and financial performance. **Integration into Risk Management Framework:** Developing and implementing strategies to mitigate climate, monitoring their effectiveness through integration into the company's overall risk management framework. **Collaboration:** The CRO collaborates with other executives, such as the CFO and CEO, to ensure that climate-related risks are accurately reported and disclosed E.g., Providing input on the financial implications of climate risks and ensuring that disclosures are comprehensive and transparent

CHRO

Enable Value-Driven Mindset Across the Organisation:
Shifts individual and organizational mindsets to prioritise climate risk prevention, preparedness and adaption. Implements measures to protect the workforce from climate risks. And also integrates climate-related goals into performance management systems to encourage active contribution to the company's climate initiatives and reward.

People Strategy:
Embed climate risk literacy across all organisational levels. This can be supported by delivering awareness and training programs to educate stakeholders on climate risks and sustainability goals.

Leadership, people & culture:
In collaboration with the CxO, develop a leadership model that enables organisations to foster the right competencies and align on purpose, values and programs, and extend this ethos to all individuals associated with the company, including contractors and suppliers.

CIO

Data Management and Integration:
Ensures the company's IT systems can effectively collect, manage, and integrate climate-related data from various sources.

Technology Solutions:
Identifies and deploys technology solutions that support the company's climate initiatives. E.g., The integration of AI to analyse climate-related risks and opportunities.

Cybersecurity and Data Privacy:
Ensures that climate-related data is secure and that the company complies with data privacy regulations.

Collaboration:
The CIO collaborates with the CFO, CRO, COO, and CEO to integrate to align IT strategies with the company's climate goals.

CSO

Strategy Development:
Lead the development and implementation of the company's climate strategy.

Stakeholder Engagement:
Engages with internal and external stakeholders, including employees, investors, and regulators, to communicate the company's sustainability efforts and gather feedback.

Data Collection and Reporting:
Will typically oversee the collection, analysis, and reporting of climate-related data.

Collaboration:
The CSO will fostering strategic alignment, through joint planning sessions

We could also think of the CSO as the Chief Enabling Officer. Their role is not to do everything, but rather to develop frameworks, establish appropriate governance and enable the business transformation.

CXO

Integration Across the Business:
Ensures the company's CTAP and supporting strategies are integrated across the business and communicated effectively to customers, enhancing transparency and building trust.

Experience Integration:
Ensures the integration of climate-risk is a core part of the company's value proposition.

Stakeholder Feedback:
Gathers and analyses feedback from stakeholders regarding how a company is addressing climate risk and uses this information to improve CTAP and other supporting strategies

Collaboration:
The CXO collaborates with the CEO, CFO, COO, and CRO to align customer experience strategies with the company's climate goals, and manages climate-related risks impacting customer experience.

What are the million-dollar climate questions the Board and C-Suite should be able to answer?

As well as understanding the role that the Board and C-Suite need to play it is also important to know what questions they should be able to answer when discussing climate risk. The below questions reflect the type of disclosures that a business will be expected to answer when meeting AASB S2 or other climate-related disclosure requirements:

- How is the board balancing short-term financial results with long-term viability and resilience?
- How has the business aligned climate risk, net zero goals and business strategies?
- What information is supporting the board to evaluate both physical and transition climate-related risks? Is the assessment multi-generational and how are these risks integrated into the organisations?
- Where has the business identified material threats and opportunities for growth because of climate risk process management?
- How has management addressed factors such as inherent climate-related risks in the supply chain?
- How has the business addressed financial implications of emissions pricing?
- How will climate change impact the business' access to capital and insurance?
- What revisions to internal controls and assurance functions has the business made to increase rigour and reduce the increasing threat of greenwashing and litigation given discoverability?
- How has the business, driven development of capability across different roles and different business functions?

Cutting through the noise. Simplifying the integration of climate risk

Understandably, like any topic, climate comes with its fair share of terminology that can feel foreign even to those fluent in the typical language of business. However, when climate risk acronyms and scientific terms are demystified, what is left is a very simple question –

‘What impact will a changing climate have on the financial viability of your business, and what are you doing to reduce the risks, take advantage of the opportunities and drive authentic and credible communications for all stakeholders’?

When you realise, that climate risks, such as supply chain disruptions, operational inefficiencies, and market shifts are ultimately familiar financial risks, you understand that addressing climate risk is not about creating entirely new governance structures and risk management frameworks, but rather integrating climate risk into existing frameworks.

That being said, there are undoubtedly challenges that businesses face in truly prioritising climate risk. However, companies can address these by adopting a whole-of-business mindset and approach, embracing a culture of change and innovation to overcome any barriers they face:

Improve climate literacy:

You cannot manage what you do not measure, and you cannot measure what you do not understand. To manage climate risks effectively, it is essential to embed climate literacy across all organisational levels. This means integrating climate knowledge within stakeholders' functional skills, introducing cascading climate KPIs from leadership to business units, incorporating climate risk into daily activities and building the risk culture within the organisation. This can be supported by delivering awareness and training programs to educate stakeholders on climate risks and sustainability goals, and engaging industry experts to provide up-to-date information through seminars, and mentoring support for new board members and leadership.

Determining organisational maturity:

Businesses today recognise climate as a key business risk but their experiences and successes with building a climate related mindset into the business vary significantly. In shaping the next phase of improvement for your organisations journey, we believe assessing organisational maturity across areas such as (but not limited to), governance and capability development, undertaking scenario analysis and building climate transition plans and the extent of integration with ERM and business functions, is a logical next step that will set companies up with a plan to improve the strategic climate based capability and help to prevent a sense of feeling overwhelmed.

Accept progressive enhancement of solutions, not immediate fixes:

Identifying and addressing climate risks requires a multi-pronged approach due to their long-term, evolving, and interconnected nature. Develop short, mid, and long-term time horizons that account for the useful life of assets, align climate risks with existing business risk appetite, and test business resilience against future climate scenarios. It is ok to start this as qualitative, with the goal of shifting to more quantitative analyses as your understanding matures. Set interim milestones to support longer-term targets and continuously update and engage with a broad set of stakeholders to ensure that evolving risks and opportunities are not overlooked.

Embrace flexible strategic leadership:

Uncertainty in climate science should not be ignored but can be managed by embracing the strategic flexibility that allow leaders to remain responsive to new information and reactive to changing conditions. Developing risk leadership from the board level to ensure appropriate capital allocation to achieve climate targets and collaboration internally and externally to ensure comprehensive strategic planning and effective cross functional accountability is established. Aligning a business's purpose and goals, through climate-related insight and transparent communication about uncertainties, showcases a proactive approach to sustainability that creates confidence among both employees and stakeholders.

Understand what a 'good' Climate Transition Action Plan looks like:

A successful Climate Transition Action Plan requires strong climate literacy and leadership among the Board and Executive to drive progress. It needs to have time-bound, verifiable science-based targets (ideally with third-party verification), defined governance structures with clear responsibilities, stakeholder engagement plans, and planned investment that details the cost of the transition strategy. It should also establish mechanisms for monitoring and reporting progress - and where relevant, focus on engaging with policymakers to shape and respond to climate-related policies and regulations.

Effectively use IT systems to empower a data driven approach:

Businesses can significantly enhance climate risk management by leveraging IT systems for precise data integration and AI for advanced predictive insights, while ensuring robust data quality, privacy, and comprehensive ESG disclosures. Having accurate data and predictive functionality enables companies to monitor vulnerabilities and adapt mitigation strategies based on scenario analysis and stress testing.

For a more detailed understanding of the value of integrating climate risk please refer to Section 1 and how to successfully assess, manage and integrate climate risk across the business please refer to Section 3 and 4 of the full report.

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Where to from here

Climate change is a pressing reality that presents significant opportunities for businesses to innovate, adapt, and lead in a sustainable future. However, turning climate risk into a value creation requires strong leadership to drive transformational change.

For the systemic shift for a decarbonised future, collaboration and technology will be vital, and no organisation can achieve this alone. The TCS Go Zero Hub is here to provide additional support to help companies at all stages of their journey. By sharing knowledge, generating ideas, and collaborating on low-emission solutions, businesses can create mutually beneficial outcomes.

For the full report, including what the next steps should be for your business,

Click here

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The TCS GoZero Hub is a collaboration between Tata Consultancy Services Ltd (TCS) and Macquarie University that aims to bring together research, innovation, education and consultancy expertise to support organisations in their journey towards a net zero emissions future. We also *acknowledge the engagement* of Stockland Corporation Limited, Downer EDI Limited and an Australian electricity generation and retailing company *in providing their content and expertise to develop this report.*