

8.1

# MANAGEMENT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

## Climate-related governance

### Important notice

This unit is part of a package of learning materials designed to support understanding of foundational concepts relating to climate-related financial disclosures. These learning materials do not constitute application or regulatory guidance for the preparation of climate-related financial disclosures and are not intended to represent legal or professional advice. We encourage you to seek your own professional advice to find out how the *Corporations Act 2001* (Corporations Act) and other relevant laws may apply to you and your circumstances, as it is your responsibility to determine your obligations and comply with them.

The company featured in this case study is entirely fictional and presented for illustrative purposes only. It is not intended to represent any real business, past or present. Any resemblance to actual entities is purely coincidental. Different entities have different climate-related risks and opportunities, and so this scenario may not be relevant for your entity.



### Key topics

- › Governance structures
- › Governance processes, controls and procedures for monitoring, managing and overseeing climate-related risks and opportunities

## Relevance for climate-related disclosures

In this unit you will learn about climate-related governance arrangements and considerations for establishing them. The unit includes a case study of a hypothetical mid-sized entity to illustrate how these considerations could be applied in practice.

## Overview

Climate-related governance refers to the structures, processes, controls and procedures an entity may use to monitor, manage and oversee its climate-related risks and opportunities.

Climate-related governance arrangements can include responsibilities for overseeing, managing and monitoring climate-related risks and opportunities, how these responsibilities are carried out, and what processes, controls and procedures support them.

The case study is designed to illustrate key concepts related to climate-related governance. It is a hypothetical example involving a fictional mid-sized wine producer, grounded in real-world climate-related governance practice. It will give you practical insights into:

- › climate-related governance structures, and
- › climate-related governance processes, controls and procedures.



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## What is climate-related governance?

Climate-related governance describes the structures, processes, controls and procedures that an entity may establish to oversee, manage and monitor its climate-related risks and opportunities. Effective climate governance arrangements can help to ensure that entities are equipped to identify, assess and manage climate-related risks and opportunities. Table 1 provides an overview of the types of climate-related governance arrangements an entity could establish, along with illustrative examples and considerations for establishing governance arrangements. An entity could include these elements to integrate and coordinate governance of climate-related risks and opportunities across its core structures, processes, controls and procedures, such as oversight, strategy and decision-making, planning, risk management, monitoring, reporting, accountability and incentives, and capacity and compliance.

**Table 1: Overview of climate-related governance arrangements and considerations**

<b>Governance arrangements overview</b>	<b>Example</b>	<b>Considerations for establishing governance arrangements<sup>1,2,3</sup></b>
<b>Climate-related governance body</b>		
An entity may assign responsibility for overseeing climate-related risks and opportunities to a governance body and/or designated individuals.	The governance body could be the board, a board committee, or similar group, such as a sustainability committee.	<p>Has your entity assigned responsibility to a body and/or individuals for overseeing climate-related risks and opportunities:</p> <ul style="list-style-type: none"><li>› Is this a board level responsibility?</li><li>› Is it delegated to a sub-committee or group, like a sustainability committee?</li><li>› Are specific individuals accountable for managing oversight of climate-related risks and opportunities? If so, who?</li></ul>



<b>Governance arrangements overview</b>	<b>Example</b>	<b>Considerations for establishing governance arrangements<sup>1,2,3</sup></b>
The responsibilities of the governance body may be documented.	Responsibilities could be documented in terms of reference, role descriptions, mandates, or policies.	<ul style="list-style-type: none"> <li>› Has your entity documented governance responsibilities for climate-related risks and opportunities in: <ul style="list-style-type: none"> <li>• terms of reference/charter for the governance body that has been assigned oversight responsibilities?</li> <li>• terms of reference/charter for other relevant committees, like audit, risk or remuneration committees?</li> <li>• individual role descriptions, like executive and non-executive directors?</li> </ul> </li> <li>› Do you have a separate climate-specific policy or another policy that covers climate-related risks and opportunities, like an environmental policy?</li> <li>› How often are these documents reviewed and updated to reflect evolving climate-related risks, opportunities, and regulatory expectations?</li> </ul>
<b>Board of directors</b>		
The board may assess whether they have the appropriate skills and knowledge in the climate-related disclosure requirements.	The board may establish clear governance arrangements for climate-related matters, such as assigning oversight responsibilities and ensuring relevant skills are integrated into board processes.	<ul style="list-style-type: none"> <li>› Do you have periodic assessments of board effectiveness that include climate-related skills and knowledge?</li> <li>› Are climate-related competencies included in your board skills matrix?</li> </ul>
<b>Governance processes, controls and procedures</b>		
The governance body may assess whether they have the appropriate skills and knowledge to manage climate-related strategies.	The governance body may assign a third party to assess their climate-related skills and knowledge, identify any skills gaps and develop a plan to address the gaps.	<ul style="list-style-type: none"> <li>› Does your climate-related governance body have sufficient awareness and understanding of how climate change may affect the entity?</li> <li>› Has it assessed its own climate skills and knowledge? How has it done this? Is a third party involved in assessment?</li> <li>› Has an assessment/comparison been made between existing capabilities and those needed to effectively oversee climate-related matters? What gaps in skills and/or knowledge have been identified?</li> <li>› Do you plan to recruit new individuals or create new roles to oversee climate-related strategies?</li> </ul>



<b>Governance arrangements overview</b>	<b>Example</b>	<b>Considerations for establishing governance arrangements<sup>1,2,3</sup></b>
The governance body may receive updates or information about climate-related risks and opportunities and may provide updates and reports to the board.	The governance body may receive quarterly progress reports on climate targets.	<ul style="list-style-type: none"> <li>› Do you plan to train or upskill individuals to oversee climate-related strategies?</li> </ul>
The governance body may consider climate-related risks and opportunities when involved in making strategic and operational decisions.	Climate-related risks and opportunities may be considered when making decisions about the entity's annual financial plan.	<ul style="list-style-type: none"> <li>› What does your climate governance body do with the information they receive, e.g. is the information used to review and monitor progress, approve actions?</li> <li>› How does your climate governance body take climate-related risks and opportunities into account when involved in reviewing and guiding its overall strategy?</li> <li>› Does the overall strategy include a climate strategy informed by an assessment of climate-related risks and opportunities?</li> <li>› How does the climate governance body consider climate-related risks and opportunities when involved in risk management planning and processes?</li> <li>› How does the climate governance body consider climate-related risks and opportunities when involved in decisions about major transactions or key plans of action?</li> <li>› Have any trade-offs been identified in addressing climate-related risks and opportunities?</li> </ul>
The governance body may oversee compliance with legal obligations for climate-related disclosures.	The climate governance body may support the entity's legal obligations around record keeping and climate-related disclosures.	<ul style="list-style-type: none"> <li>› Does your entity have record keeping procedures in place for climate-related information?</li> <li>› Does this align with the entity's legal obligations?</li> </ul>
The governance body may oversee the setting of any climate-	The climate governance body may be involved in setting emissions reductions	<p>If your entity has climate-related targets:</p> <ul style="list-style-type: none"> <li>› Does your climate governance body oversee the setting of these targets?</li> </ul>



<b>Governance arrangements overview</b>	<b>Example</b>	<b>Considerations for establishing governance arrangements<sup>1,2,3</sup></b>
related targets and monitor progress against the targets	targets based on the entity's greenhouse gas emissions inventory and science-based sectoral decarbonisation pathways.	<ul style="list-style-type: none"> <li>› What data and information are used to inform the targets?</li> <li>› What processes are used to set the targets?</li> <li>› Does your climate governance body monitor progress against targets?</li> <li>› How frequently is progress reviewed, and what type of reporting is provided?</li> <li>› Are monitoring information and controls reviewed, for example, by your internal audit function?</li> </ul>
Climate-related performance metrics may be linked to remuneration policies and/or other incentive mechanisms.	Achievement of climate-related targets may be linked to annual bonuses.	<p>Do you factor climate-related considerations into remuneration policies? If so, how?</p> <ul style="list-style-type: none"> <li>› Which roles are included?</li> <li>› What proportion or number of total roles?</li> <li>› What types of metrics are used?</li> <li>› What incentive mechanisms (e.g. annual bonus or long-term incentive) are used?</li> <li>› How are climate-related incentives related to other incentives? Are there any contradictions?</li> <li>› What percentage of executive remuneration is linked to climate-related considerations?</li> </ul>
<b>Management's role in climate-related governance and management</b>		
A specific manager or management committee may be responsible for climate-related governance and management.	The Chief Sustainability Officer of an entity may be assigned responsibility for achievement of climate-related targets. They may be a member of the Sustainability Committee that is the climate-related governance body for the entity, and they may report to the Chief Executive Officer.	<ul style="list-style-type: none"> <li>› Are members of your entity's management team accountable for governance, monitoring, managing and overseeing climate-related risks and opportunities? <ul style="list-style-type: none"> <li>• How are they accountable and supervised?</li> <li>• Are they part of the climate governance body?</li> <li>• Is it included in their role descriptions, responsibilities or objectives?</li> </ul> </li> <li>› Are the individuals responsible for managing climate-related risks and opportunities brought together from different teams and departments across the entity? If so, how are they brought together or coordinated?</li> <li>› Are there processes in place to ensure that any concerns about the management of climate-related risks and opportunities can be raised and communicated to the climate governance body or responsible individuals?</li> </ul>
Management of an entity may use internal controls and procedures to	The internal audit function may periodically review the systems and controls in place to ensure the accuracy	<ul style="list-style-type: none"> <li>› What internal controls, systems or procedures are in place to support climate oversight and progress against climate targets?</li> </ul>



Governance arrangements overview	Example	Considerations for establishing governance arrangements <sup>1,2,3</sup>
support climate oversight, and these may be connected with other internal functions.	of greenhouse gas emissions data.	<ul style="list-style-type: none"> <li>› Are these controls integrated with other functions (such as risk management, financial reporting, etc.)?</li> <li>› How are climate-related controls and procedures integrated with other functions?</li> <li>› Does your internal audit or assurance function review climate-related controls, systems and/or procedures?</li> </ul>

## Case study - climate-related governance for a mid-sized wine producer

### Introduction

This case study may help you reflect on how climate-related governance may be applied within your entity. The scenario is intended to prompt considerations of structures, processes, controls and procedures for management of climate-related risks and opportunities. This scenario does not describe real events or a real entity but is grounded in realistic climate-related governance arrangements for entities.

<b>Sector:</b>	Wine production
<b>Entity:</b>	Mid-sized wine producer
<b>Location:</b>	Barossa Valley, South Australia
<b>Core content:</b>	Climate-related governance

### What is the scenario?

Riverbend Wines is an award-winning South Australian wine producer. The entity recognises that its climate-related risks and responsibilities are not well managed. It decides to integrate climate-related governance arrangements throughout its operations. Climate-related governance is integrated into Riverbend Wine's strategy, risk management and decision making, monitoring and reporting and incentive structures.

### What is the response strategy?



## Oversight and management

Responsibility for overseeing climate-related risks and opportunities is assigned to the Board of Directors and a new non-executive director with climate expertise is appointed. The CEO is responsible for defining the company's Climate Strategy, with support from the newly created role of Chief Sustainability Officer (CSO).

The board, through a cross-functional Sustainability and Climate Action Committee, reviews its climate-related strategy and targets and defines its direction – monitoring progress, evaluating and approving policies, and identifying climate-related risks and opportunities.

Climate-related risks are integrated into the Enterprise Risk Management framework and are overseen by the Audit and Risk Committee (for further information on how entities may integrate climate risks and opportunities into risk management processes, please refer to Module 8 Unit 2).



## Monitoring and incentives

Internal climate-related KPIs, like emissions reductions, waste reduction and energy use, are implemented and monitored through quarterly reporting to the Sustainability and Climate Action Committee and twice a year to the board. Internal auditors may include review of climate-related reporting functions in their work program. A portion of senior management's annual performance pay is linked to incentives based on a series of climate performance metrics aligned with the company's climate targets.

## What are some potential business impacts?

### Strategic and financial

- Effective identification, assessment and management of climate-related risks
- Improved capacity to capitalise on climate-related opportunities

### Operational

- Effective coordination of data collection and greenhouse gas emissions monitoring and reporting resulting from the integration of climate-related governance arrangements across operations
- Identification of the need for capital investment to decarbonise operations

### Market and Stakeholder

- Reputational benefits from more effective management of climate-related risks and opportunities
- Becoming a preferred supplier for entities with targets to reduce their Scope 3 greenhouse gas emissions

### Governance

- Improved governance arrangements for climate-related risks and opportunities.



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## Key takeaways

- › Climate governance arrangements are the structures, processes, controls and procedures an entity may establish to manage climate-related risks and responsibilities.
- › Climate-related governance arrangements can include responsibilities for overseeing, managing and monitoring climate-related risks and opportunities, how these responsibilities are carried out, and what processes, controls and procedures support them.

## Sources

<sup>1</sup> IFRS Foundation (2025) [Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2: Guidance document](#) (PDF 1.3 MB)

<sup>2</sup> Transition Plan Taskforce (2024) [Explore the Disclosure Recommendations](#) (PDF 572 KB)

<sup>3</sup> World Economic Forum (2019) [How to Set Up Effective Climate Governance on Corporate Boards Guiding Principles and Questions: Insight Report](#) (PDF 1.7 MB)



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