

4.6

CLIMATE-RELATED TRANSITION RISKS

Case study 3: Legal-related risks

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

- › Climate-related transition risks for businesses – legal-related
- › Impacts on entities' strategy and operations

Relevance for climate-related disclosures

This unit's case study will help you to understand how climate-related transition risks, in this case a legal-related risk, can impact entities. It illustrates the financial and operational impacts of legal climate-related risk, particularly litigation and risks from non-compliance with new regulations.

Overview

This unit explores a case study designed to illustrate key concepts related to climate-related transition risks, specifically legal risk. It is a hypothetical example involving a fictional Queensland retailer, based on real legal developments such as the enforcement of laws against greenwashing and increased scrutiny of environmental claims. It may give you practical insights into:

- › understanding legal risk as a climate-related transition risk
- › assessing exposure to trends in litigation and enforcement
- › identifying implications for governance, product marketing and disclosure, and
- › considering risk mitigation and response strategies.

Introduction

This case study may help you reflect on how similar climate-related legal risks could affect your entity. The scenario is intended to prompt consideration of potential vulnerabilities and resilience strategies. This scenario does not describe real events or a real entity but is grounded in realistic conditions, such as increasing legal and regulatory scrutiny of entities' conduct in the context of climate change, particularly in relation to environmental claims and disclosure obligations.



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Sector: Retail - fashion and apparel

Business: Mid-size clothing retailer

Location: Queensland

Transition risk type: Legal-related

What is the scenario?

Threaded Earth Clothing Co. is a regional fashion retailer with 12 stores across Queensland and an expanding online presence. As part of its marketing strategy, the company promotes its use of 'eco-conscious materials' and claims that its products are 'sustainable' and 'climate-friendly'.

In 2023, a legal review of environmental marketing practices across the retail sector identifies Threaded Earth Clothing Co. as potentially making misleading sustainability claims. A consumer advocacy group initiates a class action, arguing that Threaded Earth Clothing Co. misled customers by implying its products met certain environmental standards that they did not actually meet. The group cites inconsistencies between the company's public claims and its actual supply chain practices, including sourcing from manufacturers with poor environmental compliance records.

The case gains media attention, prompting scrutiny from investors and calls for greater transparency.

Threaded Earth Clothing Co. is required to provide documentation to support its claims and faces pressure to revise its marketing and supply chain practices.

What are some potential business impacts?

Financial

- › Legal fees and external audit costs
- › Temporary sales decline due to negative publicity
- › Cost of revising marketing and reprinting product materials
- › Opportunities to strengthen investor and customer confidence by demonstrating transparency and compliance

Operational

- › Product claim review across stock keeping units (skus) and supplier documentation
- › Compliance training for marketing and product teams
- › Staff training on new materials and processes
- › Opportunity to improve operational integrity and efficiency through clearer documentation, stronger supplier assurance, and enhanced staff capability

Strategic

- › Reputational repositioning and re-engagement with key customers
- › Exploration of verified low-emission materials, in order to meet market expectations
- › Opportunity to rebuild market trust and differentiate the brand by adopting verified, science-based sustainability claims and certified low-emission products

Governance

- › Board-level review of climate-related legal risks and oversight mechanisms
- › Introduction of a legal risk register and escalation protocols
- › New internal policy on substantiating environmental claims
- › Integration of legal risk into climate risk governance and reporting
- › Opportunity to enhance governance and strengthen overall accountability.

What is the response strategy?

Threaded Earth engages a third-party sustainability verifier to assess claims across its product range. Following this, the company withdraws certain product lines and rebrands others with verified certifications.



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Internally, Threaded Earth Clothing Co. establishes a cross-functional Climate Risk and Compliance Committee to oversee legal and regulatory developments. It introduces a pre-publication legal review process for all sustainability-related communications.



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