Investors want to know the risks of climate change

The North Gauteng High Court recently ruled that the environmental authorisation for a new coal-fired power station had not properly considered the project's climate change impacts - leading to its authorisation being referred back to the relevant government agency. Shortly after the ruling was made, the Department of Environmental Affairs put into effect new National Greenhouse Gas Emission Reporting regulations as part of the National Environmental Management: Air Quality Act.

Warrick Stewart, SRK Consulting principal environmental scientist and associate partner

SRK Consulting principal environmental scientist and associate partner Warrick Stewart believes that this new legal benchmark will also drive improved company reporting in South Africa, whilst raising the question of how many organisations are currently fully disclosing their climate change risks and opportunities to their investors or stakeholders.

Accountable reporting

The ruling and subsequent change to legislation is significant, according to SRK Consulting environmental scientist Paul Jorgensen, insofar as it provides further evidence of the need for South African companies to 'mainstream' climate change risk into their annual reporting and risk management processes, including in their financial statements. The new regulations have further reverberation in business, as voluntary disclosure moves closer towards compulsory, accountable reporting.

"Various global initiatives on governance and reporting have emphasised that climate change is not only an environmental problem but is a business challenge too," said Jorgensen. "As investors look increasingly to low-carbon transitioning economies and technologies, they want more data on how companies are quantifying their exposure to climate change impacts."

This investor perspective is adding to the growing regulatory requirements that governments across the globe are placing on operations' environmental and social effects.

“Many investors and fund managers are now asking questions about climate change – to find out if companies are serious about this issue and how they disclose relevant information in that regard,” he said. “If the company appears not to be serious about climate change, the question is then whether that business represents a sound investment.”

So the focus is turning to 'decision-useful' information on which investors can base their investment choices.

Beyond greenhouse gas emissions

“It is important for companies to realise that assessing climate change impacts goes beyond just greenhouse gas emissions,” said SRK environmental scientist Victoria Braham. “Attention will increasingly need to be paid to the effects of extreme weather events, for instance; organisations also need to plan for how they would deal with water-related challenges such as floods and droughts, or for how climate change could impact on social structures and labour costs.”

Braham highlighted the recent progress of global bodies in pioneering new international guidelines and standards related to climate change.

“While the Carbon Disclosure Project – now referred to as the CDP - has forged the way in standardising greenhouse gas disclosures, this area of concern has now grown to include water risks and other climate change impacts as a more holistic approach,” she said. The CDP is an international mechanism that oversees the disclosure systems that allow public and private entities to report on their impact on the environment. “An important next step has now been taken by the Task Force on Climate-related Financial Disclosures (TCFD), which has made recommendations on four key themes in business operations: governance, strategy, risk management, and metrics and targets.”

TCFD recommendations

The recommendations of the TCFD – initiated by the Financial Stability Board of the Bank for International Settlements – will guide the way forward for organisations to gather and present data according to a comparable and respected benchmark. Its recommendations are likely to be adopted by the G20 countries – giving further credibility and confidence to this approach.

Head of the TCFD, businessman and philanthropist Michael Bloomberg, said in the report that while warming of the planet by greenhouse gas emissions posed serious risks to the global economy, it has until now “been difficult for investors to know which companies are most vulnerable to climate change, which are best prepared, and which are taking action.”

The TCFD recommendations aim to begin fixing this problem, as “what gets measured better, gets managed better,” he said.

“This global initiative signals that there is considerable forward momentum taking business into this area of recognising, measuring and managing their climate change risk,” said Jorgensen.

In the transition to a lower-carbon future, he said, South African businesses now needed to develop and apply a range of different scenarios of how this future could affect them – in terms of both risks and opportunities. This transition, it should be remembered, has long been underpinned by government's policy commitment to a climate-resilient society.

“The essential questions that companies will need to ask themselves is how do they deal with these scenarios and how do they manage the uncertainty that these scenarios present," he said.