Climate Governance Initiative Australia

A JOINT PUBLICATION BY

Australian Institute of Company Directors

Insurance Council of Australia

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Climate target setting snapshot

Principles for Australian boards

VERSION 2 | NOVEMBER 2026

The 10 guiding principles for target setting have been created to help Australian boards establish climate targets and navigate associated risks effectively. This snapshot offers key questions for directors to ask management at each phase of the target setting process.

For detailed information on the application of these principles, access the resource: **Principles for setting climate targets: A guide for Australian boards**

TARGET DEVELOPMENT PHASE

1. Collect reliable baseline data
2. Develop targets that meet ambition and align with strategy, while recognising key dependencies e.g. emerging technology
3. Undertake verification and assurance
4. Establish a record-keeping system

TARGET IMPLEMENTATION PHASE

5. Clarify executive accountability
6. Identify and allocate required resourcing
7. Develop an implementation plan

TARGET COMMUNICATION PHASE

8. Communicate targets clearly and consistently
9. Disclose underpinning assumptions, contingencies, uncertainties and risks

TARGET REVIEW PHASE

10. Establish a monitoring system and communicate updates when needed



KEY QUESTIONS FOR DIRECTORS TO ASK MANAGEMENT

DEVELOPING TARGETS

UNDERLYING DATA

- How, over what period, and on what basis was the data collected?
- Are there any gaps in our information?
- Are we proactively engaging with, and setting expectations for, our third-party sources (e.g. customers and suppliers in our value chain)?

METHODOLOGY

- What methodology was used? Have we disclosed this in our reporting?
- On what basis was this particular methodology selected?
- To what extent would the targets materially differ if another methodology were used?
- How are we tracking that this methodology remains the most accurate and current?

ASSUMPTIONS AND UNCERTAINTIES

- What degree of modelling or analysis have we undertaken? Is this appropriate given the timeframe for the targets and the information and data available to conduct modelling or analysis?
- What assumptions and judgements is the delivery of this target reliant upon? Have we clearly set these out?
- How, and to what extent, have we factored in contingencies, estimations and uncertainties?
- What sensitivity analysis has been performed?
- Are we using offsets to help reach our climate targets? If so, have we undertaken due diligence on the quality and type of offsets?

ALIGNMENT

- To what extent do we think the targets are aligned with our existing risk exposure and strategy?
- What changes will need to occur for the targets to be met?
- What trade-offs are involved in adopting the targets (e.g. with respect to price or costs) and have we communicated these with key stakeholders?
- Have we considered how the latest international agreement on climate change, including Australia's climate commitments, have informed the climate targets?

STAKEHOLDER ENGAGEMENT AND MARKET DYNAMICS

- Have we engaged the required experts (e.g. subject matter experts, assurers)?
- Have we been accurate in our portrayal of business/organisational plans, capabilities, and strategies to inform opinions?
- Have we engaged with relevant stakeholders when setting the targets?
- How do our targets compare with peers and competitors?

DOCUMENTS AND RECORDS

- Has the decision-making of the board, and management, informing the targets been documented?

IMPLEMENTING TARGETS

TARGET IMPLEMENTATION

- Have we developed implementation plans to support our targets?
- Who has management accountability for delivering on the targets?
- What feedback channels and systems do we have in place to monitor our progress against targets?

ADEQUACY OF RESOURCING

- What resources have we allocated to support our targets?
- Is there additional capability that we need to build within the business or tap into externally?
- What are the trade-offs associated with diverting resources towards achieving our climate targets?

SCOPE OF CONTROL AND INFLUENCE

- Which stakeholders do we need to influence to achieve our climate targets?
- What steps are we taking to exert influence (e.g. through contracting and procurement processes)?
- How are we balancing our desire to make progress on climate risks and opportunities against other value chain priorities (e.g. responsible sourcing)?



COMMUNICATING TARGETS

BALANCED DISCLOSURES

- Do the planned disclosures give a clear and credible picture of our targets and how we plan to achieve them?
- Have we avoided boilerplate disclosures?
- Have we refrained from exaggeration, hyperbole, or overstating climate resilience?
- Have we made sure any uncertainties, assumptions, and judgments underpinning our targets are made clear and disclosed prominently?
- Have we given careful consideration to our reliance on emerging technology and carbon credits, while adhering to the minimum requirements of AASB S2?

CONSISTENT DISCLOSURES

- Are disclosures of targets and related progress accurate and consistent across the annual reporting suite, website publications, investor day presentations, and other ad hoc disclosures?
- What systems and processes are in place to ensure consistency across communication channels?

TARGETED ENGAGEMENT

- Who are the key investors and other stakeholders that need to understand our targets?
- Have we considered the characteristics of our target audience and how they might understand the targets in light of their level of knowledge and familiarity with climate matters, including both individual and institutional investors?
- What are their expectations?
- How do we plan to engage with them?

COMPLIANT DISCLOSURES

- Have we made all disclosures required under AASB S2?
- Have we explored external assurance options?



REVIEWING TARGETS

INTEGRATED MONITORING SYSTEM

- Do we have a well-established system to monitor the 'lifecycle' of the targets (including the underlying data, assumptions, contingencies, and interim targets)?

EXTERNAL INPUTS

- Is our organisation sufficiently attuned to external sources of information?
- Are these external sources linked to our assessment of whether a target remains reasonable?

REPORTING TO THE BOARD

- What is the agreed cadence of reporting?
- Are we engaging with the responsible executives?
- Does a particular board committee (e.g. sustainability) need closer oversight and engagement with management?

ONGOING REPORTING

- Have we kept stakeholders sufficiently informed of progress and any changes to underlying assumptions for a target?
- Are the targets and any progress updates addressed appropriately in our periodic reporting?

REVISED TARGETS

- How will we publicly explain the need for a revised target?
- Are we prepared to answer questions from media, regulators, and investors?
- What legal exposure do we face?



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The AICD hosts the Australian chapter of the Climate Governance Initiative, a global network which supports directors in meeting the challenges and opportunities of governing climate change risk. As part of this network, the AICD engages and educates the Australian director community, informed by the best possible advice and practitioners in the field of climate governance.

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MAR-14990_26