Climate Governance Initiative Australia

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Governing for net zero

The board's role in organisational transition planning

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Foreword by the Treasurer

Australia has a golden opportunity to become an indispensable part of the global net zero economy. We have remarkable advantages – geological, geographical, meteorological – that position our people and our companies to be big beneficiaries of this shift.

A major part of the Government's economic plan is to mobilise the private sector to maximise this opportunity.

Our Future Made in Australia agenda is about attracting private investment in key industries and making our country a renewable energy superpower. We are building a stronger, more diversified and more resilient economy powered by clean energy and facilitating the substantial private capital required to make this happen.

Our climate reporting reforms are helping to modernise our financial system, by providing greater information and clarity to investors. The reforms established Australia's climate risk disclosure framework, introducing standardised reporting requirements for businesses to ensure they are making high quality climate related financial disclosures.

Our Sustainable Finance Roadmap outlines how government, regulators and industry will work together to implement sustainable finance initiatives and reforms in a clear and coordinated way. It will help companies and investors make decisions with confidence as they manage their climate and sustainability risks.

As part of the Roadmap, Australia will join leading jurisdictions, including the UK, EU, Singapore, and New Zealand, to support companies developing high-quality transition plans. Treasury's forthcoming best practice climate-related transition planning guidance is due to be released before the end of the year.

Transition planning represents a significant business opportunity for Australian companies. Companies with credible and commercially viable plans that are aligned with long-term value creation will be better able to attract capital, unlock their growth potential and create jobs for Australians.

Globally, financial institutions are scrutinising corporate transition plans to assess companies' preparedness for climate-related financial risks and opportunities. For institutional asset managers, transition plans are informing their investment decisions and supporting constructive engagement with their portfolio companies.

It is now central to a board's governance role that they lead their organisations through the transition, understanding the opportunities, risks and challenges that the net zero transformation presents for them.

This director's guide incorporates insights from leading businesses and asset owners, highlighting the important role of board leadership in transition planning. This practical and pragmatic resource will complement Treasury's forthcoming guidance. The guide will help Australian businesses deliver on their climate targets, create long-term value in a rapidly shifting global economy and support Australia's transition to net zero.

I commend the AICD and ACSI on its publication.

The Hon Dr Jim Chalmers MP
Treasurer of Australia

Foreword by the AICD and ACSI CEOs

Climate transition planning has evolved from an early-mover initiative to become a business imperative. These plans bridge climate commitments with business strategy in the net zero transition. For directors, they represent essential governance tools for overseeing climate risk and guiding strategic decisions. For companies, a transition plan helps them to plan with greater confidence, take a long-term view and build collective buy-in with stakeholders such as customers and shareholders as well as across the business, with the board playing a crucial role in this process. While voluntary, they've become valued for investors supporting organisations navigating transition journeys while seeking sustainable returns.

This collaboration with the AICD and ACSI represents a powerful meeting of minds – bringing together directors steering business transitions with stakeholders such as investors and customers backing them. The result captures both strategic challenges directors face and highlights what investors want to see from their portfolio companies.

Whether you're a large organisation refining existing strategies or a mid-cap company seeking to integrate climate considerations into core business planning, this resource delivers practical insights for boards about what Australian organisations need to do to successfully manage the net zero transition.

Mark Rigotti

Managing Director & CEO, AICD

Climate change has been an ACSI priority for over a decade. Company transition plans help investors to understand and respond to the climate-related financial risks and opportunities that will impact the value of their investments over the long-term.

ACSI's collaboration with the AICD on this work highlights investors' and company directors' shared interest in high-quality transition planning. ACSI supports our members in protecting and enhancing long-term investment value. This includes promoting better practice reporting and disclosure across the market. Businesses will be reshaped by their responses to climate change, and, as this guide clearly shows, there is a strong commercial case for taking a far-sighted, strategic approach to transition planning. The guide makes it clear that company directors play an important role in the development and implementation of a robust transition plan.

Building on baseline climate-related financial disclosure requirements, we encourage materially exposed companies to develop and disclose detailed transition plans that position them for long-term profitability and resilience. A well-structured, clearly communicated and effective transition plan supports investors' capacity to respond to climate-related financial risks and opportunities, including when making investment decisions and when engaging with portfolio companies. For superannuation funds, this supports their duty to act in the best financial interests of their members.

Louise Davidson

CEO, ACSI

Snapshot

Climate transition planning is an important strategic capability for Australian organisations, with leading boards embedding climate into core decision-making to remain resilient and competitive in a decarbonising economy.

While each organisation must develop their own responses to the challenges and circumstances they face, experienced Australian boards seek to address several fundamental elements when overseeing the development and implementation of a transition plan, as shown in the figure.

Top 10 director questions to guide transition planning

1. Has your board reviewed a comprehensive assessment – including through the use of scenario analysis – of how climate-related risks and opportunities may impact the organisation's business model, strategy, and financial position?
2. Has your organisation reviewed its emissions profile, including material scope 3 emissions from the value chain, and used this information to inform the development of its transition plan?
3. Does your board have the capability and confidence to critically assess climate-related advice and assumptions from management or advisers?
4. Is climate governance capability appropriately reflected in director education, succession planning and skills at the executive level?
5. Has your organisation engaged in meaningful consultation with key stakeholders – including vulnerable or underrepresented groups – and does the transition plan include strategies for ongoing engagement?
6. Is your organisation's strategic ambition achievable, credible, and aligned with its purpose, employee value proposition and long-term business strategy?
7. Is the transition plan itself credible and robust, considering both its economic feasibility, and reviewed? Are 'reasonable grounds' demonstrable for all forward-looking statements (including targets)?
8. Are your governance structures, decision-making processes, and reporting lines appropriate to support delivery of the transition plan's objectives?
9. Has your board approved the capital and operational budgets required to implement the transition plan, and considered whether executive KPIs and incentives are aligned with transition goals?
10. Are there defined processes in place to monitor progress, review the plan, and respond to material developments or emerging risks?

Introduction

Australian directors recognise that the case for effective climate transition planning has evolved beyond risk management to a strategic imperative, driven by anticipated physical damage to assets (**physical risk**) and significant shifts in business and regulatory conditions as economies decarbonise (**transition risk**).

Organisations that proactively embed climate considerations into their business strategy can position themselves to capture emerging opportunities while managing transition risks amid an evolving climate policy and regulatory environment – encompassing mandatory climate reporting, geopolitical dynamics, and greenwashing concerns.

Investors and other stakeholders increasingly expect organisations to demonstrate that their transition plans chart a strategic, long-term response to a decarbonising global economy. Investors focus on this issue because of the clear link between climate-related risk and financial outcomes.

In Australia, organisational maturity in addressing climate change varies significantly, ranging from companies beginning to consider the commercial implications of climate change to those who have developed detailed, well-funded, long-term transition plans.

Drawing on insights and interviews with investors and non-executive directors at the forefront of transition planning, this resource offers practical guidance for boards at all stages of maturity.

The following chapters explore the strategic importance of transition planning, directors' legal duties and governance expectations, and practical approaches for boards to embed climate considerations into decision-making and long-term planning processes. The AICD and ACSI thank Pollination Law for its important contribution to this work, particularly in clarifying how directors' legal duties and obligations apply in the context of transition planning.

Building effective transition plans

A **climate transition plan** outlines how an organisation intends to respond to climate-related risks and opportunities, moving beyond reactive compliance and aspirational statements toward integrated strategies with clear, deliverable targets embedded within core business plans.

Transition planning serves two critical purposes:

- It provides an opportunity for organisations to develop a **structured, long-term plan for resilience and competitiveness** in response to climate-related risks and opportunities; and
- It allows an organisation to **clearly communicate its approach to key stakeholders**, including to support informed investment decisions.

Australia's mandatory climate reporting standard (**AASB S2**) defines a transition plan as:

> "An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."

Transition plans typically include short- and long-term emissions reduction goals, and the strategies and governance arrangements required to achieve them. They can address climate **scenario analysis**, operational resilience, supply chain engagement and workforce considerations, including approaches to an equitable or 'just' transition.

WHERE ARE TRANSITION PLANS DISCLOSED?

The way transition plans are communicated varies significantly, reflecting differences in regulatory requirements, organisational size, emissions intensity, and exposure to climate-related risks.

Many large or emissions-intensive Australian companies have published transition-related information within broader climate disclosures, often incorporated into sustainability reports or climate-related financial disclosures. Some also publish standalone transition plans outlining periodically updated multi-year strategies. From 2025, those Australian companies subject to the mandatory climate-related disclosure regime under AASB S2 will be required to disclose information about any transition plan that they do have in place, to enable report users to understand the effects of climate-related risks and opportunities on strategy and decision-making. While AASB S2 does not strictly oblige an entity to have a formal 'transition plan' nor publish a standalone transition plan, it inherently requires disclosures that are relevant to an entity's climate-related transition – for example, broader strategy disclosures about how an entity has responded to, and plans to respond to, climate-related risks and opportunities (including information about changes to business model, mitigation and adaptation efforts and how an entity plans to achieve any climate-related targets).[1]

In practice, information relevant to transition plans will most likely be included in the Sustainability Report, although it may instead be incorporated by cross-reference[2] – for example, to a standalone transition plan – in line with ASIC Regulatory Guide 280: Sustainability reporting – provided the transition plan is lodged with ASIC and readability is not compromised.

1 See for example IFRS Foundation, Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2 (June 2025), Table 1 (mapping of IFRS S2 requirements relevant to transition planning). Available here.
2 Note, however, that the modified liability provisions under the mandatory reporting regime will not extend to disclosures made in cross-referenced documents – see ASIC RG 280.86-280.88.

CHAPTER 1:
Integrate the climate transition into core business strategy

KEY POINTS

1. **Prioritise transition planning as a driver of long-term value.** A credible transition plan should be integrated with long-term business strategy, financial planning, and risk oversight – supporting the organisation to navigate both commercial and climate risks, and identify emerging opportunities.
2. **Respond to stakeholder expectations.** Stakeholders increasingly expect clear climate strategies. Transition plans outlining tangible goals and actions can help organisations maintain access to capital, partnerships and workforce trust.
3. **Navigate complexity through board oversight.** Transition planning involves policy uncertainty, competing priorities and evolving market expectations. Effective governance helps balance ambition with commercial reality and articulate the entity's approach.

Transition planning is a way for companies to present a coordinated business strategy to stakeholders and financial markets – contextualising their value within the global shift towards net zero.

Why transition planning matters

A well-structured, clearly communicated transition plan helps investors and other stakeholders understand a company's strategy to maintain long-term resilience and profitability. (See Box 1.1 How investors use transition plans.)

Despite recent headwinds, momentum behind decarbonisation remains strong. Many organisations recognise the long-term risks and opportunities associated with the net zero transition. Climate-related financial reporting is standard practice among many large publicly listed companies, and mandatory climate reporting will further standardise disclosure in Australia (see Chapter 2).

Organisations face a strong commercial imperative to proactively embed long-term business strategies that support success in a transitioning global economy.

> "The science is evolving, and we can't do nothing while we wait for certainty. We can already see the impacts of shifting climate and geopolitical dynamics - these are risks that must be accommodated in our plans."
>
> — Karen Moses OAM FAICD

The widespread adoption of net zero targets[3] reflects the recognition that operations and strategies must take climate risk into account to remain competitive. As the market matures, the ambition and credibility of targets is key – including the assumptions behind them, how they will be achieved, and progress made to date.

While many small-to-medium sized companies have yet to develop formal transition plans, this may change, driven by supply chain partners, lenders and investors seeking greater understanding of climate-related strategies.

> "I would argue that any company not at least thinking about a transition plan is only planning for the next 6 to 12 months – and that's a very limited horizon. It may not need to be formalised yet, but it has to come. I would hope most directors of large organisations are looking much further ahead than that."
>
> — Grant Murdoch FAICD (Life)

3 For more information see Australian Council of Superannuation Investors (ACSI) (2024), Promises, Pathways & Performance – Climate Change Disclosure in the ASX200.

BOX 1.1: How investors use transition plans

Company transition plans support investors' capacity to respond to the climate-related financial risks and opportunities expected to impact the value of their investments over the long-term. For superannuation funds, this also supports their duty to act in the best financial interest of their members.

INTEGRATION OF CLIMATE CHANGE CONSIDERATIONS IN INVESTMENT PROCESSES

Institutional investors routinely consider how climate change could impact asset values, informing decisions to buy, hold and sell securities. Asset owners investing via external asset managers often integrate climate change considerations into investment mandates and asset manager review processes.

Transition plans can provide asset owners with valuable insights on systemic climate risks and opportunities which impact investment portfolios.

"When we are talking with our investment team, as well as our external investment managers, it's not about thinking of climate as a separate issue, but what does it mean for company strategy?"

— Large Australian asset owner

ENGAGEMENT WITH PORTFOLIO COMPANIES

Transition plans also inform investor stewardship practices that asset owners undertake to promote long-term value creation. A core practice is engaging with companies to understand or influence their strategy and behaviour in support of financial returns.

Climate change risks and responses are a key priority for many asset owners who engage with boards and executives. Transition plans inform strategic discussions on the management of climate risks and opportunities, which is particularly relevant for long-term, globally diversified investors.

Transition plans inform voting decisions by providing insights on whether climate-related risks and opportunities are being addressed to support long-term investment returns. '**Say on Climate**' votes have specifically focused investor attention on the quality of company transition plans.

"Transition plans are a key input into the company engagement process, especially with companies with high emissions intensity."

— Large Australian asset owner

INVESTOR PRIORITIES FOR TRANSITION PLANS

Asset owners look for transition plans that outline tangible actions aligned with the company's climate targets and broader strategy, assessing both financial returns and emissions abatement.

They recognise that decarbonisation depends partly on external factors and accept that plans may reflect uncertainty and risk – but expect clear disclosure of key assumptions to assess credibility.

"We want companies to tell us about uncertainty, about roadblocks, so we can make a decision on whether we think that there is momentum for a policy to come in or for a technology to be developed."

— Large Australian asset owner

How stakeholders prioritise transition plans

Under mandatory climate reporting, stakeholders will soon have access to much more information on an entity's view of its exposure to climate-related risks and strategies – including information about any climate transition plan they have in place (see Chapter 2).

Across the financial system, supply chains, government and civil society, stakeholders are sharpening their focus on the substance – not just the existence – of climate commitments. Transition plans are becoming a key lens through which these groups assess credibility, alignment with national and global targets, and willingness to collaborate. Understanding how these groups prioritise and evaluate transition plans is critical to maintaining trust and securing continued support.

"All organisations need to be mindful of what both their obligations are at law and from a regulatory sense, and that is ultimately the source code for why we developed a transition plan. I would then add to that, that member expectations and stakeholder expectations are the next layer of how any organisation needs to calibrate those factors into its thinking."

— Andrew Fraser GAICD

Investors and financial institutions: Institutional investors, banks, and insurers integrate climate risks into decision-making given potential financial impacts. For example, Australia's four largest banks commonly have plans to require corporate borrowers in certain emissions-intensive sectors to have credible transition plans for new or renewed financing.

Supply chain partners: Transition plans inform supply chain partners that credible decarbonisation pathways are in place, supporting long-term relationships and commercial alignment as markets evolve.

Governments and regulators: Federal, state, and local governments set climate targets, policy frameworks and regulatory requirements. Organisational transition plans can help inform assessments of the effectiveness of these initiatives.

ASIC may review transition plans to determine whether companies have reasonable grounds to support climate-related statements. APRA may assess regulated entities' transition plans to evaluate how climate-related financial risks are being identified and managed. The ACCC may consider whether transition-related disclosures support claims made to consumers.

Employees and communities: Well-developed transition plans can help organisations attract and retain staff. They may also provide a framework for promoting a '**just transition**' by considering the impact of the plan on workers and communities. The Net Zero Economy Authority (NZEA) promotes orderly economic transformation while supporting regions and workers through the transition to a net zero economy. The NZEA's work may be relevant when developing transition plans that address impacts on workers and communities.

"ESG is part of the employee value proposition – younger employees want to work for companies that demonstrate real commitment to sustainability and addressing climate change."

— Penny Bingham-Hall FAICD

Consumers: Transition plans demonstrate credible climate commitments, providing sound basis for climate-related marketing claims and building brand loyalty of climate-conscious customers.

Civil society and non-governmental organisations (NGOs): Proactive engagement during transition plan development helps companies manage reputational risk and promote constructive community discourse on climate issues. For some organisations, First Nations groups may be particularly important stakeholders given their connection to land and Country, and potential impacts on traditional lands and cultural heritage.

"Climate expectations from policymakers, investors, and the public are not going away – if anything, they will intensify as 2050 approaches. Public and shareholder tolerance for backsliding on climate commitments is low, and businesses that fail to take climate action seriously may face growing regulatory, financial, and reputational risks."

— Innes Willox

Director insights on transition planning in action

The following valuable insights and practical lessons were shared in interviews and roundtable discussions with non-executive directors from organisations with more developed transition strategies:

TRANSITION PLANNING MUST BE EMBEDDED IN CORE STRATEGY

Transition planning needs to be integrated with business strategy, not treated as an isolated compliance or corporate social responsibility exercise. Plans should clearly align with the organisation's commercial goals and be fully reflected in strategy, budgets, and operations.

Directors consistently emphasised the need to embed climate considerations into strategic decision-making from the outset and include the close involvement of the Chief Financial Officer (CFO) (see Box 1.2).

> "Start with conversations with senior leadership including the CFO about linking transition plans to strategy from a very early stage, rather than it being more of a regulatory driver."
>
> — Vanessa Sullivan GAICD

EARLY PLANS WERE OVERLY DETAILED, OBSCURING STRATEGIC CLARITY

Some early transition plans, possibly due to a lack of clear disclosure frameworks or market norms, were excessively detailed. This detracted from the plan's core purpose – to clearly communicate the rationale for decisions and strategies to investors and stakeholders. Now, clarity, transparency, and conciseness are expected, with standardised mandatory reporting driving greater comparability and consistency.

Financially material issues should be clearly identified and communications focused on the elements demonstrating the organisation's transition pathway.

> "Transition plans are actually significant reports in their own right and the journey ahead involves being relevant and crisp about what really matters in the transition to net zero – not all the marketing material."
>
> — David Thodey AO FAICD

BALANCING AMBITION WITH REALITY

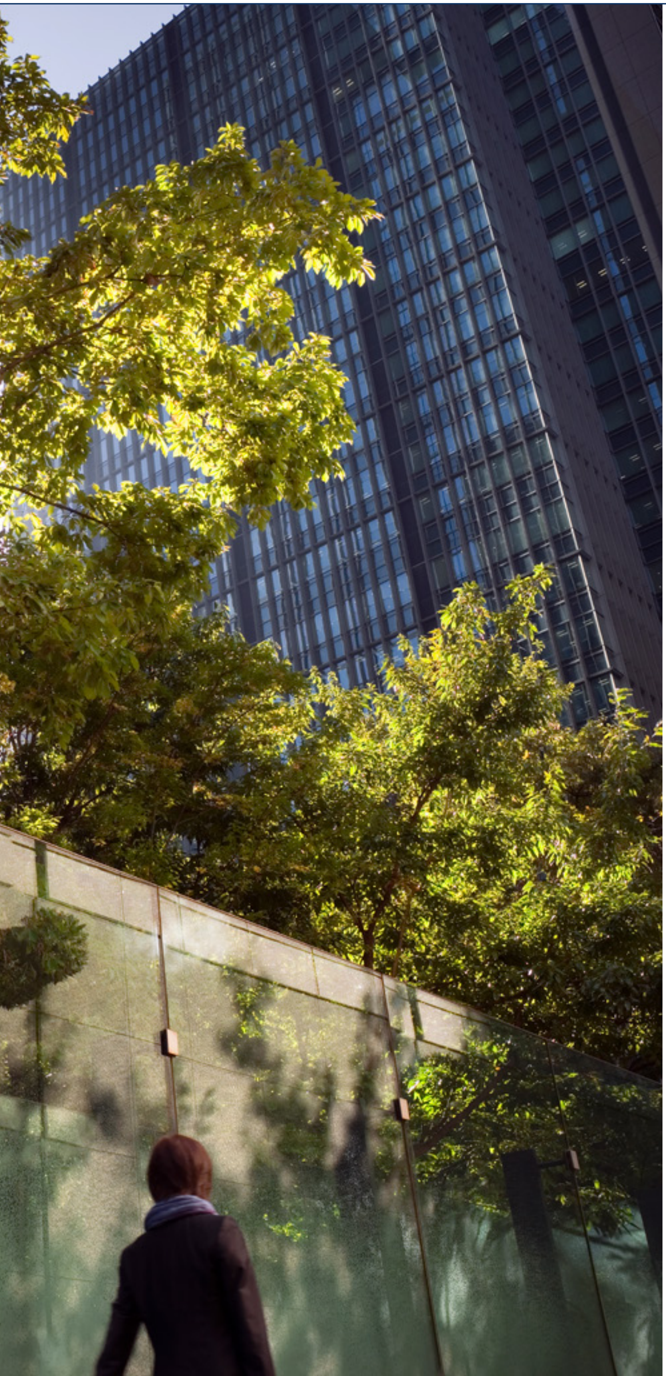
The ambition of climate targets needs to be balanced with what is realistic given constrained financial capital, technology readiness, and operational resources. Ambitious but impractical plans can undermine credibility. Clear and realistic assumptions should underpin transition plans, transparently communicating trade-offs and constraints to stakeholders.

Boards have a critical role in making the business case for specific initiatives, in particular ambitious goals requiring coordinated action across a value chain. This includes clearly addressing trade-offs and uncertainties and short- and long-term impacts and benefits. Transition plans should articulate how long-term profitability and shareholder value is supported.

Directors also emphasised the importance of talking with a broad spectrum of investors, to support an approach that reflects diverse expectations and supports enduring trust.

RETURN ON INVESTMENT REMAINS CENTRAL

While sustainability is essential to long-term value creation, short-term financial performance remains a priority for many investors. Through credible transition planning, directors can show how they propose to deliver financial outcomes aligned with shareholder expectations. This is particularly important when short-term pressures are acute – boards need to articulate the rationale for sustainability-related investments and how they support the organisation's long-term resilience, competitiveness, and growth.



BOX 1.2: The evolving role of the CFO in climate governance

Directors identify the CFO as a critical executive in the development and implementation of credible transition plans. The CFO has a key role in aligning the organisation's financial strategy with its climate objectives and ensuring the financial viability of transition actions.

Specific responsibilities can include:

- Leading or supporting scenario analysis to evaluate the financial implications of different transition pathways;
- Assessing how climate and market conditions may affect the organisation's financial performance, position, and prospects;
- Owning the data that underpins the transition plan and mandatory reporting to ensure completeness, integrity, consistency and alignment across disclosures;
- Leading compliance with mandatory climate reporting obligations, including under AASB S2;
- Exploring access to innovative financing options, such as green bonds, sustainability-linked loans, and climate-aligned investment partnerships; and
- Working with the CEO and other executives to integrate the transition plan across business functions.

Findings from the AICD's Climate Governance Study 2024, developed with Pollination, highlight that an emerging feature of better practice is the CFO's early and ongoing engagement.

By leveraging their expertise in financial strategy, risk, and capital management, CFOs help ensure that transition plans are financially grounded, operationally executable, and aligned with long-term organisational value. Their engagement often enhances credibility with investors and stakeholders and supports successful plan execution.

> "The CFO must have skin in the game to deliver climate outcomes and have the right levers to pull for implementation. The skill set of a CFO must now include sustainability expertise."
>
> — Marcelo Bastos MAICD

Challenges of transition planning

Working with management, directors must navigate a range of technical, strategic, and market-level challenges to support the entity to develop credible transition pathways. Several factors (set out below) complicate the issue, introducing uncertainty and sometimes slowing momentum. After considering key challenges, boards should consider how to clearly articulate the chosen strategy and why it is appropriate given the company's circumstances.

INCONSISTENT INTERNATIONAL FRAMEWORKS

Differences in global transition frameworks and standards can create complexity, particularly for organisations operating across multiple jurisdictions. In Australia, mandatory disclosures are aligned with ISSB (International Sustainability Standards Board), but the requirements are different in the US and EU. Companies must manage varying disclosure frameworks, supporting guidance and regulatory expectations. This fragmentation adds layers of complexity, increasing the resources required for effective governance and accurate disclosure, and posing challenges to cohesive strategy development. Appendix B provides an overview of some key frameworks which may inform the development of a transition plan.

LACK OF DEFINITIONS AND CREDIBILITY STANDARDS

Transition planning involves extensive stakeholder engagement – from investors and regulators to employees, customers, and communities – all of whom may have differing expectations. The lack of universally agreed definitions and standards can introduce complexity. This lack of clarity can also make board oversight and external communication more challenging. Nonetheless, entities can choose the definitions and standards that are appropriate to its needs, clearly explaining their approach, to cut through complexity.

The Federal Government's Sustainable Finance Roadmap[4] includes a commitment that Treasury will release best practice guidance on transition plan disclosures by the end of 2025. Complementary tools, such as the Australian sustainable finance taxonomy, may also assist by providing a consistent set of metrics to define activities which contribute to climate change mitigation in line with the objectives of the Paris Agreement. See Appendix B for further details about the taxonomy.

4 Treasury (2024). Sustainable Finance Roadmap.

ALIGNMENT CHALLENGES

While momentum behind climate initiatives remains strong, some companies face stakeholder resistance if climate action is perceived to conflict with short-term financial performance. For entities undergoing complex transitions and with a diverse shareholder base, achieving unanimous stakeholder support may not be possible. Nonetheless, clear communication and proactive engagement, articulating how the transition plan supports sustained profitability and long-term value creation, remain essential. Chapter 3 includes insights on the importance of stakeholder engagement.

> "The safest place for companies amidst the pushback on ESG agendas is to ensure their actions are grounded in commercial logic. The reality is that the Australian government - and most governments worldwide - has committed to a net-zero future. There is a clear commercial logic for this transition. It's about maintaining shareholder value and investing in the long-term interests of our stakeholders."
>
> — Philip Chronican GAICD

TECHNOLOGY AND ENERGY UNCERTAINTY

To make forward-looking decisions related to technology and energy sources, directors must assess technologies that are not yet proven to be commercially viable or cost-effective. This uncertainty is particularly acute in sectors dependent on long-lived infrastructure assets, such as energy and transport, where choices made today will influence business performance decades into the future. Some organisations will need to balance immediate commercial considerations with investments in emerging or untested technologies, complicating decision-making.

AN UNEVEN PLAYING FIELD

Not all sectors or companies are decarbonising at the same pace, especially where technology or policy signals are not fully developed. Organisations making significant upfront commitments could face a short-term competitive disadvantage. Directors should be mindful of competitive pressures and market dynamics while also considering the long-term commercial case for climate action.

> "I think what we all collectively have to do, as both consumers and investors, is say we're going to drive as much pressure as possible so we shift the whole market. The goal is to ensure it's a level playing field and we don't encourage opportunistic investments that act to delay market wide progress on ESG."
>
> — Vanessa Sullivan GAICD

CHAPTER 2:

Transition planning and directors' duties

KEY POINTS

1. **Transition planning is good business practice.** As financially material climate-related risks escalate, transition planning is increasingly important to corporate strategy, risk management and disclosure. Boards have a central role in guiding and overseeing a credible response.
2. **Directors must diligently oversee transition planning with appropriate insight and proactive inquiry.** Directors should understand relevant risks, assess information critically and oversee the development of a transition plan. A well-governed plan supports sound strategic decision-making and mitigates greenwashing risks.
3. **Articulate material assumptions, progress, and uncertainties.** Directors should oversee transition plans and be satisfied that they are supported by reasonable grounds.

It is now well-established that directors can – and in the face of foreseeable financial risks must – consider climate change when pursuing the best interests of the corporation.

Transition plans: directors' legal duties and obligations

Climate transition planning is increasingly viewed as a matter of good governance, with direct relevance to directors' oversight of strategy, risk, and disclosure. As stakeholders place greater emphasis on credible, forward-looking climate action, the expectations on boards – and individual directors – are evolving accordingly.

Transition planning raises complex questions about responses to financial risks and opportunities in a decarbonising economy. It also prompts difficult decisions about the allocation of scarce resources – whether capital, talent, or time – in support of long-term strategic priorities. Directors need to consider how their legal duties apply in this context.

As with other issues, directors must discharge their fiduciary and statutory duties. These include core duties of:

- **loyalty:** the duty to act in good faith in the best interests of the corporation;[5] and
- **competence:** the duty of care and diligence, exercising the care that a reasonable director would in the circumstances.[6]

Directors also have a role to play in supporting public statements, including on climate-related matters, that are not misleading or deceptive. This extends beyond the statements for which directors are directly responsible, to requiring that appropriate verification and assurance frameworks are in place for statements made by the company.[7]

5 Section 181 of the Corporations Act 2001 (Cth) requires directors to exercise their powers and discharge their duties in good faith in the best interests of the corporation, and for a proper purpose.
6 Section 180(1) of the Corporation Act requires directors and officers to exercise due care and diligence in the discharge of their functions, to the standard that a reasonable person would exercise if they (a) were a director or officer of a corporation in the corporation's circumstances, and (b) occupied the office held by, and had the same responsibilities as, the director or officer.
7 Section 1041H of the Corporations Act 2001 (Cth) prohibits a person from engaging in conduct in relation to a financial product (including shares) that is misleading or deceptive or is likely to mislead or deceive. This prohibition is substantially replicated under section 12DA of the ASIC Act. For the purposes of this memorandum, there is no material difference in the legal application of the 'misleading or deceptive conduct' standard in section 1041H and the 'false or misleading representation' standard in section 12DA of the ASIC Act, nor section 18 of the Australian Consumer Law which also contains a broader prohibition on misleading and deceptive conduct in trade or commerce. Section 1041E Corporations Act 2001 (Cth) also contains the related offence of making materially false or misleading statements or information likely to induce dealing in financial products or impact their traded price.

TRANSITION PLANNING AND THE BEST INTERESTS OF THE CORPORATION

The evolution of climate change understanding has led to acceptance that directors can – and, where the risk is foreseeable and material, *must* – give it appropriate consideration when pursuing the best interests of the corporation.

In 2022, the AICD commissioned legal advice from Bret Walker AO SC and Gerald Ng SC on the content of the best interests duty.[8] The opinion confirmed while shareholder or member interests remain central, the law does not assume shareholder or member interests are best served by disregarding other stakeholders, particularly over the longer term. Rather, employees, customers, suppliers, creditors, Traditional Owners, and the environment may all be legitimate considerations for directors, particularly where these intersect with the company's long-term value and reputation.

Directors are not required to pursue climate-related goals in their own right. However, climate change and the transition to a net zero economy are financial risk factors that should be considered by directors in the exercise of their discretion. This is increasingly important in the pursuit of corporate objectives, including the achievement of short, medium, and long-term financial outcomes (**Box 2.1**).

It follows that it is not only desirable, but often necessary, for directors to consider their organisation's climate strategy to remain competitive and resilient in a net zero economy and meet the best interests duty.

WHAT DOES THE DUTY OF DUE CARE AND DILIGENCE REQUIRE?

A legal opinion on the duty of care and diligence the AICD commissioned in 2024 from Michael Hodge KC and Sonia Tame confirmed that this duty does not require directors to act as guarantors of corporate compliance, nor are they expected to eliminate all risks.[9] What matters is whether directors take reasonable steps to place themselves in a position to guide and monitor management, remain alert to, and act on, 'red flags', and challenge management appropriately. To do this, directors need a sound understanding of the organisation's operation, relevant regulatory settings, and material risk areas.

For many parts of the Australian economy, climate change-related risks and opportunities are likely to be material, across short-, medium- and long-term horizons. The risks are both complex, fast-moving, and cross-cutting – impacting everything from strategy and business planning to risk oversight and disclosure assurance. A transition plan is the outworking of the organisation's approach to identifying and managing climate-related risks and opportunities – and its broader strategy for responding to the transition to a net zero economy. Accordingly, transition planning is increasingly critical as part of a directors' diligent exercise of their strategy, risk oversight and disclosure functions.

The level of diligence required is proportionate to the magnitude and complexity of the issue at hand. The higher the risk, the greater the uncertainty and the more material the potential impact, the more attention is required of the board. This duty is not passive. Directors are expected to apply independent judgement, maintain awareness of key risk issues, and engage meaningfully with information presented by management and advisers (**Box 2.1**). This includes seeking further information when material gaps are identified and obtaining expert advice where warranted. Directors are not required to be technical experts in climate science but are expected to develop sufficient fluency to critically assess management's climate-related strategies and assessments

While no single approach to transition planning will satisfy every organisation's needs or governance obligations, the expected standard of director conduct is informed by recognised frameworks, including the Task Force on Climate-related Financial Disclosures (**TCFD**), Transition Plan Taskforce (**TPT**) and IFRS.[10]

Chapter 3 outlines how directors can provide meaningful leadership to support credible, enterprise-wide transition planning.

8 AICD Practice Statement (2022). Directors' "best interests" duty in practice. Available **here**.
9 AICD Practice Statement: Directors' oversight of company compliance obligations (2024), available **here**. Hodge/Tame Legal Opinion: Directors' section 180 duty of care and diligence & regulatory compliance obligations (2024), available **here**. See also The Hutley Opinions on directors' duties and climate change, **2016**, **2019** and **2021**.
10 See **IFRS Guidance Document**, Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2, June 2025.

BOX 2.1: A proactive approach to transition planning

- **Lead with insight into climate risks and opportunities:** Build and maintain sufficient fluency in climate-related issues to enable informed oversight. This includes understanding relevant market and regulatory developments and being able to critically interrogate the organisation's strategic response. AASB S2 requires disclosure of how – and how often – the board is informed about climate matters, and how it assesses the availability of appropriate skills and competencies.[11]
- **Evaluate material issues and integrate into strategy:** Consider the potential impacts of climate risk and opportunities on the organisation's strategy and business model. Seek advice from appropriately qualified advisers where necessary to inform a clear and strategic response.
- **Align governance structures and processes with climate priorities:** Oversee management's integration of climate-related issues into the organisation's system of risk management and internal controls, and the execution of climate-related strategy. This includes oversight of the development of a credible transition plan, and (where applicable) board approval of key elements such as emissions reduction targets.[12]
- **Monitor implementation of the plan:** Establish governance mechanisms to monitor the implementation of the transition plan and receive regular reporting on progress, challenges, and emerging risks.
- **Support robust and accurate disclosures:** Require that robust frameworks are in place to facilitate accurate and reliable disclosures, which are aligned with both regulatory obligations (including the mandatory climate-related financial reporting regime set out in AASB S2) and market expectations. Transition plan disclosures should include appropriate context about material assumptions, dependencies and uncertainties, and the stage of organisational progress. Robust disclosure will also help manage the risk of 'greenwashing', including any emerging '**say–do–gap**' between stated ambitions and concrete actions (discussed in further detail below).[13]

11 Section 6 of AASB S2 relevantly provides: "the entity shall identify that body(s) or individual(s) and disclose information about: (i) how responsibilities for climate-related risks and opportunities are reflected in the terms of reference, mandates, role descriptions and other related policies applicable to that body(s) or individual(s); (ii) how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities; (iii) how and how often the body(s) or individual(s) is informed about climate-related risks and opportunities; (iv) how the body(s) or individual(s) takes into account climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with those risks and opportunities; and (v) how the body(s) or individual(s) oversees the setting of targets related to climate-related risks and opportunities, and monitors progress towards those targets, including whether and how related performance metrics are included in remuneration policies".

12 For further guidance on target-setting, see Principles for setting climate targets – a guide for australian boards, produced by the AICD, Insurance Council of Australia and Herbert Smith Freehills for the Climate Governance Initiative Australia (August 2024).

13 For further guidance on the new mandatory climate-related financial reporting regime, and the directors' role, see A directors' guide to mandatory reporting, produced by the AICD, Deloitte and MinterEllison for the Climate Governance Initiative Australia (Second Edition, September 2024).

Transition plans and misleading disclosure

Directors can be primarily or accessorily liable (i.e. for being knowingly concerned or involved in the misconduct) for misleading disclosure by their organisation. Liability for misleading disclosure on climate-related issues – including transition plans – is no exception.

'Greenwashing' – misleading representation of an organisation's environmental performance, commitments, or risk exposure – is increasingly a focus of shareholders, corporate regulators, and civil society.

This focus includes forward-looking statements such as emissions reduction targets or future transition commitments, which are subject to specific rules under the misleading disclosure law. A forward-looking statement will be deemed to be misleading if, **at the time it is made**, there were not reasonable grounds for making it.[14] This standard applies regardless of whether the prediction ultimately proves correct or not – what matters is the basis for the statement at the time it was made.

A transition plan necessarily includes many forward-looking statements – including statements in response to climate scenario analysis and commercial strategies. A credible transition plan itself plays a central role in demonstrating there are *reasonable grounds* for future emissions reduction targets or net zero commitments (**Box 2.2**). However, to support such a claim, it must be grounded in realistic assumptions. Externally, this includes factors such as energy grid decarbonisation or assumptions about technology commercialisation. Internally, it requires operational readiness – including whether resourcing and implementation pathways have been defined. The plan should also clearly acknowledge any material dependencies or remaining uncertainties.

Unsupported, aspirational, or absolute statements about an organisation's transition plan may suggest that a substantiated pathway exists where it does not, risking misleading disclosure. Refer to **Box 2.2** for guidance on how to mitigate this risk.

Importantly, the requirement to demonstrate reasonable grounds for forward-looking statements does not necessarily mean a fully developed transition plan must be in place before publishing emissions reduction targets. However, disclosures should be appropriately nuanced, and the organisation's current stage of transition planning maturity and progress clearly disclosed.

Stakeholders and regulators do not expect companies to predict the future. However, they do expect forward-looking disclosures to be informed, reasoned and proportionate to the organisation's capacity and operating context.

A credible transition plan provides an evidentiary foundation to help support climate-related statements that are both meaningful and legally defensible. Listed companies must also consider continuous disclosure obligations which may be triggered if the company becomes aware of material information that renders a prior representation unviable.

> In short, not only should emissions reduction targets be supported by a credible transition strategy, but the associated disclosures should outline any material uncertainties, dependencies, and assumptions – as well as the current status of development and execution.

AASB S2 reporting is annual, and entities are required to disclose information about the progress of plans disclosed the previous year,[15] as well as information about its performance against each climate-related target it has set.[16] (Acknowledging that listed companies are subject to continuous disclosure obligations noted above.)

Failure to do so may result in a disconnect between what a company says it plans to do and what it actually does. This say–do–gap can misrepresent the organisation's climate resilience risk exposure – potentially leading to significant reputational and legal consequences for the organisation and its board.

14 Section 769C Corporations Act 2001 (Cth), section 12BB ASIC Act.
15 Section 14(c) of AASB S2.
16 Section 35 of AASB S2.

BOX 2.2: What can directors do to help test that transition plan disclosures are not misleading?

To reduce the risk of misleading disclosure in transition plans, boards should oversee an organisational approach including that:

- The business can demonstrate that it has reasonable grounds for any forward-looking statements (discussed further below).
- Material assumptions, dependencies and uncertainties underpinning forward-looking statements are clearly disclosed.[17]
- Statements are regularly reviewed to ensure that past statements continue to hold in light of changing internal or external circumstances.
- Disclosures that have been overtaken by developments or that no longer reflect the organisation's position are updated or qualified.

WHAT DO 'REASONABLE GROUNDS' LOOK LIKE?

There is currently no legislative formula or case law for what reasonable grounds look like in the context of climate change targets and transition plans.

Directors should consider issues such as:

- The robustness of the internal processes and assumptions on which the conclusion of reasonableness is based.
- Whether both external feasibility (market factors) and internal feasibility (operationalisation capacity) have been assessed.
- Input from relevant experts, and whether it is reasonable to rely on those experts.
- Demonstrability – including appropriate internal processes documentation and record keeping.
- Whether material assumptions and dependencies are clearly disclosed, and whether disclosures accurately reflect the organisation's stage of transition planning maturity.

It is also prudent to document the board's evaluation process to demonstrate diligent consideration of reasonable grounds.

For further information on forward-looking statements and reasonable grounds, see **A directors' guide to mandatory reporting** V2, produced by the AICD, Deloitte and MinterEllison for the Climate Governance Initiative Australia, September 2024, p 32.

17 Australian Securities and Investments Commission (2025), **Regulatory Guide 280: Sustainability Reporting**

Transition planning within Australia's mandatory climate reporting framework

Australia's mandatory climate reporting regime, set out under the *Corporations Act 2001* (Cth) and Australian Sustainability Reporting Standard AASB S2,[18] was legislated in September 2024. Based on the international sustainability standard IFRS S2, it incorporates the TCFD framework but goes further – requiring more detailed, often quantitative, disclosures about how climate change is expected to affect the organisation, and its strategic response, over the short, medium, and long term.

The regime is being phased in under a staged approach:

- Group 1 reporting entities – the largest emitters and corporations (roughly including the ASX200 and private company equivalents) – have reporting obligations which began on 1 January 2025.
- Group 2 and 3 reporting entities – progressively smaller organisations – follow from 1 July 2026 and 1 July 2027, respectively.[19]

Reporting entities must produce the disclosures required under AASB S2 within a Sustainability Report,[20] which will become the fourth component of the Annual Report – alongside the Financial Report, Directors' Report, and Auditor's Report.

BOX 2.3: Disclosure of nature and biodiversity risks and plans

Climate change and nature loss are interconnected challenges, which can be difficult to effectively address in isolation. However, they are often managed as distinct issues. Addressing nature-related risks is particularly complex – data, frameworks, and market expectations are still emerging, and it can be harder to measure and manage than climate risks.

Investors and other stakeholders encourage companies to disclose their exposure to material nature-related risks and opportunities voluntarily using the **Taskforce on Nature-related Financial Disclosures (TNFD) disclosure framework**. The AASB also released a voluntary general sustainability standard, AASB S1, based on IFRS S1 (general requirements for sustainability-related financial disclosures), which can support the voluntary disclosure of nature-related risks.

While policy and disclosure frameworks are developing, many investors already consider material nature-related risks in investment processes. Given the potential financial materiality of these issues, directors should consider:

- how nature and biodiversity issues interact with their climate transition plans. For example, this could include consideration of how decarbonisation projects may adversely impact nature, or how 'nature-based solutions' can support both climate and nature-related objectives.
- whether an integrated climate-nature transition plan could support more effective strategic planning and disclosure.

18 The mandatory climate disclosure standard forming part of the Australian sustainability reporting standards against which organisations captured by Australia's climate reporting regime are required to disclose. AASB S2 was adapted from the international (ISSB) climate standard, IFRS S2.
19 For further detail on the size thresholds for entities caught within each Group, refer to the AICD's A director's guide to mandatory climate reporting V2, prepared in collaboration with Deloitte and MinterEllison.
20 Specifically refers to the mandatory 'Sustainability Report' required under the mandatory climate reporting regime. This mandatory Sustainability Report is separate to any voluntary sustainability reports (which are not subject to the Climate Reporting Legislation requirements).

DISTRIBUTION REQUIREMENTS FOR SUSTAINABILITY REPORTS

How the Sustainability Report is shared, and with whom, is dependent on the type of the entity. In addition to filing the Sustainability Report with ASIC, certain companies and registered schemes will be required to provide their Sustainability Report to members – either by sending it to members, or (in the case of certain public and small proprietary companies) making it readily accessible on their website.[21] For registrable superannuation entities, this must be done by making the Sustainability Report publicly available on their website.[22] For public companies, the Sustainability Report must also be laid before the AGM.[23] Other reporting entities, who are not otherwise required to provide the Sustainability Report to members, must make it publicly available on their website.[24]

TRANSITION PLAN DISCLOSURE REQUIREMENTS

While AASB S2 does not require entities to develop a transition plan, it does require disclosure of any climate-related transition plan the entity does have – including key assumptions and dependencies on which the plan relies.[25]

AASB S2 also has disclosure requirements closely related to transition planning, such as:

- Current and anticipated changes to the entity's business model.
- Mitigation and adaptation efforts – direct and indirect.
- Climate-related targets and how the organisation plans to meet them.

Such elements will often be covered in a transition plan. A transition plan can be a practical and effective way to meet multiple aspects of the reporting standard as well as serving as a valuable internal tool for managing climate-related risks and opportunities.

In June 2025, the IFRS Foundation published guidance on disclosing information about transition plans when applying their S2 standard.[26]

To incentivise disclosure in areas of high measurement or forecasting uncertainty, the legislation[27] introduced a Modified Liability regime. This provides a temporary period of regulator-only enforcement for certain disclosures made in a Sustainability Report, including statements made about transition plans, scope 3 emissions and scenario analysis reporting under AASB S2 for a three-year period; and forward-looking statements relating to climate for the first 12-month period under AASB S2. For further detail, refer to **A director's guide to mandatory climate reporting**.

21 See sections 314, 314AA, 316 and 316A of the Corporations Act 2001 (Cth).
22 See section 314AA(2) of the Corporations Act 2001 (Cth).
23 See sections 317, 250N(3) (note 1), 250R(1)(a) of the Corporations Act 2001 (Cth).
24 See section 316B of the Corporations Act 2001 (Cth).
25 Australian Accounting Standards Board (AASB), **Australian Sustainability Reporting Standard AASB S2: Climate-related Disclosures**, September 2024, paragraph 14(iv).
26 IFRS 2025, Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with **IFRS S2 – Guidance document**.
27 The **Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024** (Cth) passed Parliament on 9 September 2024 and received Royal Assent on 17 September 2024.

CHAPTER 3:

Board leadership in transition planning

KEY POINTS

1. **Set ambition and guide strategic direction.** Boards help shape the organisation's climate ambition and targets, confirming they are aligned with purpose and long-term strategy. Directors contribute by asking the right questions and challenging assumptions.
2. **Oversee implementation and integration.** The board should approve the transition plan and confirm that it is embedded into business planning, budgeting, and incentives. Committees can support oversight of key areas such as risk and reporting.
3. **Monitor progress and adapt to change.** Transition plans should be revisited periodically. Boards have a role in reviewing progress and responding to material changes to the organisation or operating environment.

As outlined in Chapter 2, addressing climate change to safeguard and enhance long-term value is a board-level responsibility closely aligned with directors' legal duties. This includes oversight of strategic direction, risk management and climate-related disclosures.

Role of the board

Transition planning typically involves adapting the business model and strategic priorities to take account of climate-related risk. This may include adaptations to achieve emissions reduction targets, address emerging risks, and capture long-term opportunities. Boards and individual directors have a critical role in overseeing the development and integration of transition plans by applying independent judgement, testing assumptions, and ensuring that plans are suitably ambitious and commercially grounded.

There is no 'one size fits all' approach. The board's contribution to transition planning will depend on a range of factors, including the organisation's size, sector, emissions profile, and stakeholder expectations.

While approaches vary, a diligent board will often engage with the following focus areas as part of its strategy and risk oversight.

Understand risks and opportunities

Directors should develop a clear understanding of how climate-related risks and opportunities may affect the organisation. This will be the foundation for guiding strategy and risk oversight including the development of a credible transition plan.

Climate-related risks include transition risks (arising from policy, legal, market and technological changes as the economy decarbonises) and physical risks (stemming from the impacts of a changing climate such as extreme weather events or supply chain disruption).

> Each organisation I've worked with has approached transition planning differently, driven by factors like emissions profile, regulatory pressures, and opportunities for innovation."
>
> — Diane Smith-Gander AO FAICD

Key factors that may inform the organisation's transition planning include:

- The organisation's total emissions (**scope 1, 2 and 3**) and whether this signals transition risks.
- Exposure to climate-related policy developments and regulation, in Australia and internationally.
- Shifting stakeholder expectations, from customers, suppliers, investors, lenders, and employees.
- Technological developments that could enable emissions reductions, create new commercial opportunities or disrupt industry dynamics.
- Physical risks to operations, infrastructure, or value chains posed by extreme weather or climate vulnerability.

Scenario analysis is a valuable tool to assess how climate risks and opportunities may unfold under different futures. It can help boards evaluate strategic resilience, test assumptions, and support more informed transition planning decisions. As the design and input assumptions of a scenario can significantly affect the outputs, directors should understand how scenarios have been developed and their implications for decision-making and the organisation's strategic planning.

Understand risks and opportunities

QUESTIONS FOR DIRECTORS TO ASK

- Has your board received a comprehensive assessment of how climate-related risks and opportunities may impact the organisation's business model, strategy, and financial position?
- Has your organisation reviewed its emissions profile, including material scope 3 emissions, and used this information to inform the development of its transition plan?
- Has your organisation undertaken scenario analysis? What are the key assumptions? Is the scenario analysis fit-for-purpose to inform the development of a transition plan?

GOVERNANCE RED FLAGS

- The organisation has not considered how physical and transition climate risks could impact operations, supply chains, or markets.
- Identified risks are vague or sector-wide statements rather than organisation-specific considerations.
- The organisation has not identified how it could benefit from the transition (e.g. new markets, efficiencies, resilience).

CASE STUDY: BlueScope – Setting out the business context

Steel producer BlueScope sets out its latest transition plan in its 2024 *Climate Action Report*.

Considered 'hard-to-abate', typical production processes in the steel sector are emissions-intensive – with low-carbon alternatives facing technological and commercial barriers.

This presents both long-term risks and opportunities for BlueScope. Its transition plan provides an overview of its operating environment, the foundation for its climate-related strategy. Important elements include:

- Description of current emissions, including across its different steelmaking facilities.
- Outcomes of climate scenario analysis across a range of possible futures. This includes business-specific implications, such as an assumed green premium under each scenario.
- Description of key enablers to BlueScope's decarbonisation, such as access to renewable energy, the availability of green hydrogen and supportive public policy settings.
- Disclosure of exposure to physical climate risks.

These sections allow BlueScope to demonstrate how their decarbonisation strategy is tailored to the company's specific operating environment.

Acknowledgement of risks, dependencies and uncertainties allows investors and other stakeholders to critically assess the assumptions underpinning the strategy. These disclosures also inform investors, policymakers and other observers on possible system-wide reforms which could facilitate decarbonisation.

To support implementation and executive-level accountability, in 2021, BlueScope created a new Executive Leadership Team role of Chief Executive Climate Change & Sustainability, focused on driving the company's decarbonisation strategy.

Build leadership capability

The transition to a net zero economy presents challenges and opportunities for Australian organisations. Directors have a critical role in steering strategic decision-making, and some may benefit from developing specific competencies in climate governance.

Building capability enables directors to better assess decarbonisation options, oversee climate-related risks and opportunities, and contribute to a credible organisational response within a broader economy-wide shift. As transition planning evolves, so too does the need for directors to stay informed on new frameworks, market trends and regulatory developments.

Directors are encouraged to take responsibility for their own learning and to foster collective board development. Incorporating structured governance education sessions – including updates on climate science, disclosure requirements and international developments – supports informed boardroom dialogue.

"There are various education opportunities available, and we've integrated this into the boardroom through regular governance education sessions – climate being one of them. Over the past five years, our boards have received annual updates on evolving legislation, requirements, and global challenges. Board directors also need to pursue their own education, but it's also crucial to learn collectively as a board. The real value comes from the dialogue - discussing topics at the board table leads to more expansive conversations. Some directors challenge whether we're doing enough or too much, whether the budget is sufficient, or if we're moving too fast or too slow. These discussions are essential for exercising good judgment and reaching a collective decision."

— David Thodey AO FAICD.

Directors should be open to new ideas and not use uncertainty as an excuse to delay action. Climate strategy is dynamic and complex – it requires boards to question assumptions and adopt a learning mindset.

"If you overlay the issue of Section 180 of the Act in terms of directors' duties, it becomes even more important to recognise that if climate risks are relevant to your business, you cannot allow commentary about things having gone too far, to sway you from the actual fact that your business will be impacted, if those risks are not understood and mitigated. You might choose to pause for the next two or three years, but all that does is leave the challenge for the next generation of directors and leaders to deal with, which by then, might be too late."

— Christine Holman GAICD

For smaller organisations with limited resources, equipping the board and executive with foundational knowledge is particularly important. A well-informed leadership team is better positioned to select credible advisers, evaluate the quality of external advice, and engage confidently with stakeholders on the organisation's transition ambitions. These organisations may need to focus their efforts on a few priority areas by targeting the most material emissions or areas of greatest impact.

A strong knowledge base also prepares directors to respond to scrutiny from investors, customers, employees, and regulators, and in demonstrating that the organisation is taking climate risks and opportunities seriously.

Build leadership capability

QUESTIONS FOR DIRECTORS TO ASK

- Does your board have the capability and confidence to critically assess climate-related advice and assumptions from management or advisers?
- Is climate governance capability appropriately reflected in director education, succession planning and skills at the executive level?
- Does your board receive regular and structured updates on key climate policy developments, transition planning frameworks and market trends?

GOVERNANCE RED FLAGS

- No recent board education or discussion on climate risks or transition planning.
- Reliance on a single board voice or external adviser for transition-related insights, without critical engagement.
- Board climate competency being prioritised over management climate competency.
- Limited ability among directors to respond to stakeholder questions about the organisation's climate strategy.
- Capability gaps not acknowledged or addressed.

Engage with key stakeholders

Building on the stakeholder landscape outlined in Chapter 1, effective stakeholder engagement is a critical component of developing and implementing a credible transition plan. Open dialogue helps build trust, shape strategy, and support execution – particularly where organisational transition goals depend on actions beyond the organisation's direct control (eg: supply chain).

Engaging across the stakeholder groups identified in Chapter 1 provides valuable insight into the broader operating environment and the implications of the economy-wide transition. This, in turn, can enhance strategic decision-making, risk oversight, and organisational resilience.

> "It's got to be a strategic business decision. You need to ensure that the strategic response you are taking is genuinely strategic - not driven by a desire to be seen as good or by a moral argument. Especially now, when there are challenges on a range of issues, not just one."

— Philip Chronican GAICD

WHO SHOULD LEAD STAKEHOLDER ENGAGEMENT?

While most stakeholder engagement sits at the management level, boards also have an important role in fostering meaningful, high-impact relationships – particularly where issues relate to long-term strategy, risk, or reputation.

Management-led engagement: Management is typically responsible for day-to-day engagement with key stakeholders such as employees, customers, suppliers, and the broader community. The sustainability team or equivalent may lead structured engagement activities, such as stakeholder surveys, to gather feedback on climate and broader ESG priorities.

When board-level engagement is appropriate: In certain situations, direct board engagement may be necessary, for example:

- Engagement with major institutional investors on climate strategy or governance issues.
- Responding to civil society campaigns which threaten corporate reputation.
- Discussions with key customers, business partners or industry peers where board-to-board dialogue can provide strategic insight or build trust.
- Where culturally respectful, senior-level engagement with First Nations groups is appropriate.

Board engagement in these contexts can provide transparency, demonstrate commitment, and support alignment on complex or contested issues.

GOVERNANCE OF STAKEHOLDER ENGAGEMENT

Directors are duty-bound to prioritise the interests of their organisation, but these interests are increasingly shaped by stakeholder expectations. The board should apply judgement in balancing short-term financial pressures with the long-term sustainability of the business.

Boards are encouraged to:

- Consider stakeholder perspectives as part of strategic and risk deliberations, carefully balancing short-term financial pressures against long-term sustainability and risk management.
- Weigh trade-offs transparently and with a clear focus on long-term value creation, ensuring that decisions are defensible and aligned with corporate values and strategy.
- Ground decisions on material risks, opportunities, and strategic alignment rather than solely for reputational benefits.
- Maintain a consistent narrative about how trade-offs are managed to reinforce trust, especially where difficult decisions are required.

STRATEGIES TO ACHIEVE TRANSITION PLAN OBJECTIVES

Many transition objectives rely on broader system-wide change. High-quality transition plans typically outline how the organisation will collaborate and engage to progress its goals – including across its value chain, industry, workforce, and community.

- **Engage with suppliers, customers, and industry peers:**[28] Value chain collaboration can support scope 3 emissions reductions and drive shared progress. Working with suppliers and customers – or participating in industry-wide initiatives – may help scale decarbonisation outcomes and identify emerging solutions.
- **Engage in public policy dialogue:** Boards may consider the organisation's public advocacy – both direct and through industry bodies – and whether it supports efficient, economy-wide transition outcomes. Alignment between an organisation's climate commitments and its public policy positions makes business sense and supports credibility and trust.
- **Engage with workers and communities:** A 'just transition' is inclusive, orderly, and enables employees and communities to adapt and benefit from low-carbon transformation. For many companies, there is a strategic rationale for supporting a just transition, including to manage reputational risks and to more broadly support an orderly, less disruptive transition. Boards can play a role in supporting workforce engagement, retraining, and reskilling, as well as regional economic development aligned with transition goals. The work of the Net Zero Transition Authority (NZEA) may be a relevant consideration.

REGULAR BOARD UPDATES ON STAKEHOLDER IMPACTS

The board should oversee stakeholder relationships and impacts throughout the life of the transition plan. This includes periodic monitoring and requiring proactive responses to evolving stakeholder expectations and market dynamics.

The chair, usually with input from the CEO and company secretary, should ensure that board meeting agendas include periodic updates on stakeholder impacts of the transition plan, covering both immediate and longer-term developments.

For further guidance on stakeholder engagement, refer to the AICD's resource, **Elevating stakeholder voices to the board: A guide to effective governance**.

28 Refer to Australian Competition and Consumer Commission (ACCC) guidance on how to engage and collaborate in a way that complies with competition laws. ACCC (2025), 'Cooperation among businesses: Sustainability collaborations and competition law'.

Engage with key stakeholders

QUESTIONS FOR DIRECTORS TO ASK

- Has the organisation identified key stakeholders and how they are impacted by the organisation's transition?
- Has your organisation engaged in meaningful consultation with key stakeholders – including vulnerable or underrepresented groups – and does the transition plan include strategies for ongoing engagement?
- Are there processes in place to oversee stakeholder engagement to monitor the impact of the transition plan?
- Has your organisation considered how ongoing stakeholder engagement can help work towards the objectives of the transition plan?

GOVERNANCE RED FLAGS

- The organisation has not proactively engaged relevant stakeholders (e.g. investors, employees, or affected communities) in the development or review of the transition plan.
- There is a lack of targeted engagement with stakeholders who may be disproportionately affected or whose voices are often overlooked.
- There is limited board visibility or leadership in engaging key stakeholder groups, especially in high-impact decisions.
- The organisation lacks a framework or governance mechanism to ensure stakeholder feedback is gathered, considered, and monitored over time.

CASE STUDY: Orica – External engagement to progress transition plan objectives

The latest transition plan of mining industry supplier Orica is set out in its *Climate Action Report 2024*.

More than 85 per cent of Orica's overall emissions are scope 3 emissions, the vast majority of which are associated with purchased intermediate goods, including ammonia and ammonium nitrate. Orica has set an ambition to reduce its scope 3 emissions by 25 per cent by 2035, from a 2022 baseline.

Much of the task to reduce scope 3 emissions will require suppliers to develop and implement new technologies which may not be technically or commercially viable at present.

Orica's transition plan highlights how partnerships with suppliers are part of their approach to reducing scope 3 emissions. For example, Orica collaborated with a supplier to test an explosive blast using ammonium nitrate produced using green hydrogen.[29] These types of initiatives demonstrate to stakeholders how collaboration with suppliers could accelerate decarbonisation.

Orica's transition plan also recognises the value of coordinated public policy signals to guide the transition to net zero. The company provides examples of how it is engaging on policy development processes. For example, Orica has contributed to the development of policy frameworks which aim to support a green hydrogen industry in Australia which could ultimately facilitate a reduction in Orica's direct and indirect emissions.

Overall, Orica's transition plan outlines practical engagement strategies which aim to facilitate decarbonisation across its value chain. Orica received a 92 per cent vote in favour of its Say on Climate resolution in 2023, indicating strong investor support.

29 Orica and Fertiberia completed the first low-carbon ammonium nitrate blast in Spain. See: Orica and Fertiberia complete first low-carbon ammonium nitrate blast in Spain (press release).

Develop strategic ambition and targets

The board helps to shape and set the strategic direction of an organisation – a responsibility extending to transition planning. While development of the organisation's transition strategy is often a collaborative process with management, detailed planning and execution sit with management. Final approval of the transition plan, however, should rest with the board.

"I would say the board creates the license and the safe space for management to pursue their ambition in this space."

— Michael Ullmer AO FAICD

WHAT DOES 'STRATEGIC AMBITION' MEAN?

The Transition Plan Taskforce (TPT) recommends that a transition plan clearly articulates the organisation's 'strategic ambition'. The strategic ambition, as defined by the TPT, comprises the entity's objectives and priorities for responding and contributing to the transition towards a low greenhouse gas emission, climate-resilient economy.

It also sets out how the entity can pursue these objectives and priorities to capture opportunities, avoid adverse impacts for stakeholders and society, and safeguard the natural environment.[30]

WHAT SHOULD THE BOARD CONSIDER IN DEVELOPING THE STRATEGIC AMBITION?

Establishing strategic ambition involves setting clear, measurable, and achievable objectives for transitioning to a low-carbon, climate-resilient business model. The board must also align these objectives with long-term value creation and ground them in the organisation's context (Box 3.1).

"A couple of my companies are well along the journey, having developed our transition plans a few years ago. The key takeaway is that there are absolutely commercial benefits that outweigh what we would have gained by following a traditional path. Sticking to our guns on the path of reducing our emissions is delivering huge benefits for us."

— Sally Langer GAICD

30 Transition Plan Taskforce (TPT) Disclosure framework (October 2023). Glossary, page 43.

BOX 3.1: Setting strategic ambition

When setting strategic ambition, boards may wish to consider the following:

- **Understand impact:** Why a transition plan is necessary and how the transition will affect the business. A baseline assessment of the organisation's carbon footprint – including scope 1, 2 and 3 emissions – may help identify areas of greatest exposure and opportunity.
- **Access to information and expertise:** Provide the board with relevant inputs, including emissions modelling, scenario analysis and decarbonisation options. Where needed, seek expert advice to support informed decision-making.
- **Consider risks and opportunities:** Assess how the transition may impact the business across different time horizons, considering market developments, emerging regulation (such as mandatory climate reporting), technology shifts, and stakeholder expectations.
- **Manage trade-offs:** Discuss trade-offs between short-term financial pressures and longer-term strategic outcomes. This includes weighing the implications of transition ambition for investors, employees, and other key stakeholders.
- **Align with purpose and strategy:** Confirm that the ambition is grounded in the organisation's core purpose and long-term strategic direction. Assess whether existing priorities or values need to be refreshed.
- **Adapt to context:** In some sectors, climate change poses an existential threat, requiring the ambition to be fully embedded within corporate strategy. In others, the transition may be less urgent – but it should still reflect material risks and align with the organisation's purpose.

WHAT'S THE BOARD'S ROLE IN TARGET-SETTING?

Target-setting involves developing and adopting a reasonable future position to strive towards. Targets can apply to all aspects of an organisation or discrete portfolios and should have regard to the latest climate science and national and international climate commitments.[31]

Targets give strategic ambition shape. They signal commitment, enable accountability, and monitor progress. While management is responsible for preparing emissions targets, boards provide oversight – confirming that targets are realistic, grounded in reasonable assumptions, and clearly linked to the organisation's broader strategy (See Box 3.2). A target without a credible plan will lead to greenwashing.

> "While companies are often tempted and even encouraged to set a myriad of targets, it's essential to keep them limited to those that are best aligned to their strategy, are realistic and have credible plans in place to achieve them and which are adaptable as the context changes over time."
>
> — Holly Kramer MAICD

31 In August 2024, the AICD, Insurance Council of Australia, and Herbert Smith Freehills developed **Principles for setting climate targets: A guide for Australian boards** to assist with target setting.

BOX 3.2: The board's role in setting climate targets

Key considerations for boards in target-setting include:

- **Short-, medium- and long-term targets:** Interim targets support credibility and make progress measurable. Long-term net zero goals should be underpinned by near-term action plans that demonstrate how progress will be delivered and tracked.
- **Coverage of emissions scopes:** Targets typically include scope 1 and 2 emissions, with scope 3 emissions often included, where there is material exposure. While challenging to measure, scope 3 coverage is increasingly important to assess the entity's market risk and to demonstrate value chain resilience and transition exposure. Directors should be aware that scope 3 data often relies on estimates and will vary over time as measurement improves – this variability is expected and should not undermine confidence in the broader transition plan. Note: An entity is required to report on scope 3 emissions under AASB S2, even if the entity does not have a scope 3 emissions target.
- **Robust and transparent assumptions:** Targets should be based on clearly stated assumptions, with recognition of uncertainties. This is especially important for scope 3 emissions and offsets. Boards should probe the basis for assumptions and seek external assurance where appropriate.
- **Alignment with the Paris Agreement:** Many stakeholders view 1.5°C-aligned targets as better practice within the Paris Agreement framework, which aims to limit warming to well-below 2°C and pursue efforts to limit it to 1.5°C. While there is no single standard for Paris alignment, methodologies generally consider an organisation's contribution to the global carbon budget. The Science Based Targets initiative (SBTi) validation is one widely recognised approach, although other approaches are available (including measures based on reductions of absolute emissions or emissions intensity).
- **Role of offsets:** Boards should examine the anticipated role of offsets, including whether they are used as a last resort for hard-to-abate emissions. Many investors refer to the Oxford Principles for Net Zero Aligned Carbon Offsetting,[32] which support the use of offsets only after all feasible abatement efforts have been pursued.

32 Kaya Axelsson et al., Oxford Principles for Net Zero Aligned Carbon Offsetting (Revised 2024), Smith School of Enterprise and the Environment, University of Oxford, February 2024, accessed April 24, 2025.

HOW CAN THE BOARD MANAGE UNCERTAINTY AND DEPENDENCIES?

Transition plans are inherently forward-looking, requiring organisations to anticipate the business environment decades into the future, consistent with other strategic planning considerations. This involves making assumptions about factors including technological progress, regulatory developments, economic conditions, and future energy costs and system transformation – any of which can significantly influence the feasibility and timing of the transition planning options.

While stakeholders, including investors, generally accept the presence of uncertainty, they also expect plans to be credible, transparent, and grounded in realistic assumptions. Boards play a critical role in testing the plan's robustness – ensuring that ambition is balanced with what is practical and achievable in the current context (Box 3.3).

> "Transition plans are important - it's about balancing ambition with what is practical, real, and commercial. Every organisation will have its own perspective on that."
>
> — Penny Bingham-Hall FAICD

BOX 3.3: Managing uncertainty and dependencies

Key oversight considerations for directors:

- **Interrogate key assumptions:** Boards should review and challenge the underlying assumptions that support transition targets and actions, including technology reliance, policy dependencies, and market shifts, and be prepared to revise them in future updates if circumstances change.
- **Clarify dependencies:** Transition plans should clearly identify which parts of the strategy depend on external developments – such as the commercialisation of new technologies or the decarbonisation of energy infrastructure.
- **Enhance transparency:** Clearly differentiate between what is currently viable and what is aspirational. Transparent acknowledgment of these distinctions builds credibility and reduces the risk of perceived greenwashing. Monitor and update where necessary.
- **Support influencing efforts:** Transition plans can include strategies to influence external outcomes – such as policy engagement, collaboration with suppliers, or participation in industry initiatives.

"There was a lot of commitment and ambition from the board to put in place a transition plan, followed by interim targets, and to be ambitious. However, within that dynamic, there was a real tension for both the board and management to ensure that our ambition aligned with our reality, ensuring we didn't overstep and risk having ambition push the organisation beyond what was credible. The key point I want to emphasise is that being credible and substantive is a prerequisite to ambition in this space - rather than allowing ambition to drive you."

— Andrew Fraser GAICD

Develop strategic ambition and targets

QUESTIONS FOR DIRECTORS TO ASK

- Is your organisation's strategic ambition achievable, credible, and aligned with its purpose, and long-term business strategy?
- Is the transition plan itself credible and robust, considering both its economic feasibility, and internal operationalisation capacity? Are 'reasonable grounds' demonstrable for all forward-looking statements (including targets)? Are key assumptions and uncertainties clearly disclosed?
- Which emissions scopes are captured in targets, and do they align with global temperature outcomes (e.g. 1.5°C or 2°C)?
- What process did the organisation undertake to ensure the transition plan was based on 'reasonable grounds'? Is this documented and tested?

GOVERNANCE RED FLAGS

- The board has not adequately tested whether the ambition is achievable or supported by stakeholders.
- Targets are announced, but no credible plan, resourcing, or interim milestones are in place to back them up.
- The transition plan relies heavily on offsets or future technological advances, rather than on real world or near-term emissions reductions.
- The organisation has not demonstrated that its transition plan is based on reasonable grounds. There is no clear documentation of the process undertaken, no evidence of internal or external verification, and key assumptions or uncertainties are not transparently disclosed.

Establish governance structures and oversee commercial integration

The board has a leadership role in steering the organisation through strategic shifts and organisational change – including those required by the net zero transition. Embedding a transition plan into corporate strategy, operations, and culture helps ensure that climate commitments translate into measurable outcomes.

While management leads implementation, the board sets the 'tone from the top'. This includes reinforcing the importance of climate and sustainability considerations across the business, ensuring clear accountability, and integrating transition priorities into the organisation's governance, planning, and performance systems.

Historically, transition planning has often been led by sustainability teams in isolation, rather than been embedded in the organisation's overall strategy or budget. For transition planning to be commercially effective, it should be integrated into core business functions – including investment planning, operational targets, and workforce composition (see Box 3.4).

By supporting robust governance and commercial integration, the board can help ensure the transition plan is not a standalone initiative, but fully part of an organisation's long-term strategy, operational plans, and performance culture.

> "The right culture is a big part of any successful transition. We have the technology, but it must also be about people thinking more responsibly about their climate impact and carbon emissions."
>
> — David Thodey AO FAICD

BOX 3.4: What steps can the board take to support implementation?

The board has a key role in overseeing effective implementation. Considerations may include:

- **Approve capital allocation and budget commitments:** Approving the transition plan and funding for associated initiatives signals board-level commitment and ensures the plan is adequately resourced. This includes investment in people, systems, and capabilities – such as upskilling staff or adopting new technologies. Australia's sustainability reporting standards also require disclosure of the financial impacts of climate-related risks and opportunities on cash flows, capital allocation and investment plans. These disclosures provide an evidence base for commercial integration.
- **Embed climate into governance and reporting structures:** Assign responsibility for transition plan delivery to executive roles such as the CFO, Chief Climate Officer or Chief Sustainability Officer – and hold these positions accountable through clear reporting lines. Governance and decision-making frameworks should be updated to reflect the transition plan's strategic goals.
- **Align incentives with transition outcomes:** Boards should review executive and organisational incentive structures to ensure alignment with the transition plan. Where strategy changes but key performance indicators (KPIs) do not, execution risk increases. Relevant KPIs and milestones tied to climate strategy and transition goals can reinforce accountability and drive performance. Boards should think carefully about whether and how KPIs are set and incentivised.
- **Communicate the plan across the organisation:** Internal communication is critical. A transition plan cannot succeed if employees are unaware of it or unsure of its relevance to their role. Boards should confirm that management has in place a clear plan to communicate and embed the transition plan across business units and teams. Wide consultation in plan development will foster buy-in and reduce implementation risk.

"The board must define strategy, set targets, and identify a champion to drive progress. However, management must be resourced to deliver on commitments."

— Bruce Cowley FAICD

HOW CAN THE BOARD SUPPORT COMMERCIAL INTEGRATION THROUGH THE TRANSITION PLAN?

Transition plans should demonstrate how strategic ambition will translate into tangible business outcomes. This includes detailing the actions management will take to embed the plan into day-to-day operations and long-term planning. Examples may include shifts in business models, changes to product and service offerings, improvements in energy efficiency and the introduction of policies that guide investment and procurement decisions. The transition plan is not just the sustainability team's plan – it requires organisation-wide commitment.

The inclusion of practical, time-bound actions – rather than broad commitments – helps demonstrate the transition plan is both credible and actionable. It also supports stakeholder confidence that the organisation is making meaningful progress toward its goals.

"One of the next steps was to embed the climate change transition plans into the business operating plan. This wasn't something overlaid from a central unit - it was integrated within each business unit, with transition planning becoming part of their normal operating plans and budgets for the ensuing year. Each year, business units have a budget for how much their carbon emissions will reduce, which is then tracked quarterly by the board sustainability committee."

— Michael Ullmer AO FAICD

WHAT ROLE CAN BOARD COMMITTEES PLAY IN TRANSITION PLANNING?

While overall responsibility for approving and overseeing the transition plan sits with the full board, directors may wish to delegate certain aspects of its development, execution, and monitoring to board committees. Leveraging the capabilities of existing committees can support more detailed oversight and ensure appropriate governance structures are in place to support implementation.

Common board committees involved in transition planning include:

- **Audit and Risk Committee(s)**
  This committee may oversee risk management frameworks, controls, and assurance processes relevant to transition planning. It is likely to play a central role in reviewing disclosures and ensuring data integrity in reporting. The committee may also help assess the internal and external assurance processes that support confidence in climate-related disclosures, including scenario analysis and emissions data. Larger companies may establish separate Audit and Risk Committees, with Audit handling climate reporting verification and Risk overseeing specific climate risks as per their charters.
- **Remuneration Committee**
  As part of its oversight of executive remuneration and incentives, this committee can help align performance objectives with transition plan milestones. For example, climate-related KPIs can be incorporated into variable remuneration structures to support accountability and progress. ACSI has published guidance on the types of climate metrics that may be relevant for assessing executive performance and incentivisation.[33]
- **Sustainability Committee**
  Where established, this committee can provide dedicated oversight of the transition plan. It may support integration of sustainability factors into strategy, monitor progress against climate-related targets, and liaise with other committees on cross-cutting issues, including risk, reporting, and remuneration.

Refer to **Bringing together ESG: Board structures and sustainability** for further information about how directors can establish and elevate sustainability matters to the board.

33 Australian Council of Superannuation Investors (ACSI) 2024, **Measuring and rewarding climate progress**.

Establish governance structures and oversee commercial integration

QUESTIONS FOR DIRECTORS TO ASK

- Are your governance structures, decision-making processes, and reporting lines appropriate to support delivery of the transition plan's objectives?
- Has your board approved the capital and operational budgets required to implement the transition plan, and considered whether executive KPIs and incentives are aligned with transition goals?
- How should the board engage with and support management to operationalise the transition plan?

GOVERNANCE RED FLAGS

- There is no clear strategy to engage, incentivise or support management to implement the transition plan.
- Governance structures, approval processes and decision-making frameworks have not been updated, indicating they may not be fit-for-purpose to support the objectives of the transition plan.
- The board has not considered or approved the budget required to deliver key initiatives, raising questions about the organisation's commitment and capacity to implement the transition plan.
- The plan is seen as being the responsibility of one business unit, not the organisation as a whole.
- Board and/or management capability gaps not acknowledged or addressed.

Monitor and review

Transition planning is an ongoing process requiring active oversight. As the external environment evolves – through technological change, policy shifts or market signals – an organisation's transition plan must remain dynamic and responsive. The TPT has underscored the importance of treating transition planning as a continuous process, not a one-time exercise.

The board plays a central role in monitoring implementation and accountability for progress against the transition plan. This includes:

- **Agreeing with management how and when the board is updated,** including reporting on progress towards short-, medium- and long-term targets, implementation milestones, and alignment with overall strategic ambition.
- **Establishing a regular review cycle for the plan**, for example, revisiting the plan annually or triennially, depending on the organisation's circumstances and rate of change in its operating environment.
- **Undertaking ad hoc reviews** where material developments impact key assumptions or inputs underpinning the plan. For listed entities, directors should consider whether changes to the transition plan are material information that must be disclosed to the market under continuous disclosure obligations.

Regardless of the specific mechanism, effective monitoring, timely review, and clear communication is essential to maintaining credibility and ensuring the transition plan remains fit for purpose. Boards should consider how progress is tracked internally and externally – and whether reporting frameworks and review mechanisms are sufficiently robust to support adaptive strategy.

> “Climate votes at shareholder meetings are often perceived as adversarial, driven by activist concerns that companies aren't doing enough. For companies proactively engaged with climate transition planning, shareholder votes may be less necessary. However, in cases where significant business model shifts could impact profitability, such as oil companies transitioning away from fossil fuels, shareholder approval might be appropriate to secure investor buy-in.”
>
> — Michael Ullmer AO FAICD

Monitor and review

QUESTIONS FOR DIRECTORS TO ASK

- Are there defined processes in-place to monitor progress, review the plan and respond to material developments or emerging risks?
- How will your board assess support for the transition plan?
- For listed companies, are there circumstances where continuous disclosure obligations could be triggered? How will the organisation report on revisions to the plan?
- Is there a case for putting the transition plan to a 'Say on Climate' shareholder vote? What are the pros and cons?

GOVERNANCE RED FLAGS

- There is no clear process for tracking progress against the transition plan, making it difficult to assess performance or hold the organisation accountable.
- The organisation lacks a defined process for reviewing and updating the transition plan, increasing the risk that it becomes outdated or misaligned with evolving risks and opportunities.
- The board has no mechanism for assessing stakeholder support for the transition plan.

APPENDIX A: Consolidated questions

UNDERSTAND RISKS AND OPPORTUNITIES

- Has your board reviewed a comprehensive assessment of how climate-related risks and opportunities may impact the organisation's business model, strategy, and financial position?
- Has your organisation reviewed its emissions profile, including material scope 3 emissions, and used this information to inform the development of the transition plan?
- Has your organisation undertaken scenario analysis? What are the key assumptions? Is the scenario analysis fit-for-purpose to inform the development of a transition plan?

BUILD LEADERSHIP CAPABILITY

- Does your board have the capability and confidence to critically assess climate-related advice and assumptions from management or advisers?
- Is climate governance capability appropriately reflected in director education, succession planning and skills at the executive level?
- Does your board receive regular and structured updates on key climate policy developments, transition planning frameworks and market trends?

ENGAGE WITH KEY STAKEHOLDERS

- Has your organisation engaged in meaningful consultation with key stakeholders – including vulnerable or underrepresented groups – and does the transition plan include strategies for ongoing engagement?
- Are there processes in place to oversee stakeholder engagement to monitor the impact of the transition plan?
- Has your organisation considered how ongoing stakeholder engagement can help work towards the objectives of the transition plan?

DEVELOP STRATEGIC AMBITION AND TARGETS

- Is your organisation's strategic ambition achievable, credible, and aligned with its purpose, and long-term business strategy?
- Is the transition plan itself credible and robust, considering both its economic feasibility, and capacity to execute? Are 'reasonable grounds' demonstrable for all forward-looking statements (including targets)? Are key assumptions and uncertainties clearly disclosed?
- Which emissions scopes are captured in targets, and do they align with global temperature outcomes (e.g. 1.5°C or 2°C)?
- What process did the organisation undertake to ensure the transition plan was based on 'reasonable grounds'? Is this documented and tested?

ESTABLISH GOVERNANCE STRUCTURES AND OVERSEE COMMERCIAL INTEGRATION

- Are your governance structures, decision-making processes, and reporting lines appropriate to support delivery of the transition plan's objectives?
- Has your board approved the capital and operational budgets required to implement the transition plan, and considered whether executive KPIs and incentives are aligned with transition goals?
- How should the board engage with and support management to operationalise the transition plan?

MONITOR AND REVIEW

- Are there defined processes in place to monitor progress, review the plan and respond to material developments or emerging risks?
- How will your board assess support for the transition plan?
- For listed companies, are there circumstances where continuous disclosure obligations could be triggered? How will the organisation report on revisions to the plan?
- Is there a case for putting the transition plan to a 'Say on Climate' shareholder vote? What are the pros and cons?

APPENDIX B:
Frameworks for transition planning

TRANSITION PLAN TASKFORCE (TPT) DISCLOSURE FRAMEWORK

The TPT is a leading global authority on corporate transition plan disclosures. Launched by the UK Government in 2022, the TPT brought together representatives from industry, academia, and regulators to establish good practice for transition planning globally.

The **TPT Disclosure Framework** builds on existing standards, particularly IFRS S2, and provides detailed guidance across core elements of a credible transition plan. In addition to the framework itself, the TPT has published sector-specific guidance tailored to support organisations in different industries. The TPT Disclosure Framework incorporates five disclosure elements, as shown in the table.

ELEMENT	SUB-ELEMENTS
Foundations	Strategic ambition Business model and value chain Key assumptions and external factors
Implementation Strategy	Business operations Products and services Policies and conditions Financial planning
Engagement Strategy	Engagement with value chain Engagement with industry Engagement with government, public sector, communities, and civil society
Metrics & Targets	Governance, engagement, business and operational metrics and targets Financial metrics and targets GHG metrics and targets Carbon credits
Governance	Board oversight and reporting Management roles, responsibility and accountability Culture Incentives and remuneration Skills, competencies, and training

In mid-2024, responsibility for the TPT's disclosure-specific materials was formally transferred to the IFRS Foundation, which now publishes the documents via the IFRS Sustainability Knowledge Hub. The IFRS Foundation has also commenced work on implementation guidance to support application of IFRS S2's transition plan requirements – reinforcing the TPT Disclosure Framework's role as a global reference point.

While it is not yet standard practice for Australian organisations to report in full alignment with the TPT Disclosure Framework, it is prudent for boards to ask management whether they have considered this or another framework when preparing the transition plan. Boards are also encouraged to monitor developments in global reporting frameworks and consult with key stakeholders, such as investors and lenders, to understand evolving disclosure expectations.

CASE STUDY: BHP – An early application of the TPT framework

BHP, one of the world's largest diversified miners, operates in a context of global resource demand alongside increasing expectations for climate action. As an organisation both working to decarbonise its operations and suppling materials considered critical to decarbonisation, the company's dual role has informed its approach to climate strategy.

BHP considered the UK Transition Plan Taskforce (TPT) Disclosure Framework in its Climate Transition Action Plan 2024 (**CTAP**) – one of the first Australian companies to do so. The voluntary framework is intended to support greater transparency and disclosure on how organisations plan to align their business models with net zero goals.

According to BHP, the TPT framework provides a structured approach to cross-check how it sets its ambitions, demonstrate tangible actions, and accountability – while recognising the inherent uncertainty of the policy and commodity environment.

The CTAP addresses the TPT framework's three guiding principles:

- **Ambition –** The company outlines how its medium- and long-term operational GHG emissions (scope 1 and scope 2) and value chain GHG emissions (scope 3) targets and goals. This is to underpin the company's positioning as a responsible supplier of energy transition minerals.
- **Action –** Transition levers are integrated into core business planning, including changes to portfolio strategy, low-carbon technology investment, and emissions reduction targets and goals. Stakeholder engagement is ongoing; progress against the company's climate change strategy is monitored through internal and external channels.
- **Accountability –** The CTAP outlines metrics for performance measurement against the company's operational and value chain GHG emissions targets and goals, with time-bound climate-related performance metrics also linked to executive remuneration. Climate oversight responsibilities are defined at both board and management levels.

The CTAP identifies elements of the voluntary TPT framework that BHP does not address, reflecting that transition planning continues to mature and evolve.

Several institutional investors have noted the framework's potential to support assessment of climate commitments and integration with governance and strategy.

HOW OTHER FRAMEWORKS INFORM TRANSITION PLANNING PRACTICES

While the TPT emphasises disclosure quality and comparability, several other frameworks may also be used to inform the design, content, and assessment of corporate transition plans. These frameworks vary in scope, purpose and detail, and alignment with any single framework is not typically expected. Instead, organisations may draw from multiple sources to support their approach.

- **Climate Action 100+ (CA100+) Net Zero Company Benchmark:** CA100+ is a global investor-led initiative focused on driving climate ambition and accountability among large, listed companies. In Australia, 50 asset managers and asset owners are signatories, engaging with 13 domestic companies. The Net Zero Company Benchmark assesses corporate progress across three key pillars: emissions reduction, climate governance, and the quality of disclosed transition plans. It offers useful insight into how global investors evaluate transition strategy credibility.
- **Science Based Targets initiative (SBTi) Corporate Net-Zero Standard:** The SBTi Corporate Net-Zero Standard sets criteria for assessing whether corporate emissions reduction targets are aligned with limiting global warming to 1.5°C. It provides sector-specific methods (some still under development) and is used to validate whether a company's targets are considered 'science-based'. Although not yet universally applied, SBTi validation signals to investors that a company's decarbonisation strategy is consistent with the goals of the Paris Agreement.
- **Australian Government guidance:** As part of the Federal Government's Sustainable Finance Roadmap, Treasury has committed to releasing best practice guidance on transition plan disclosures by the end of 2025. While the specific scope of this guidance is yet to be announced, it signals Government focus on the integrity and quality of corporate transition plans.
- **Australian Sustainable Finance Taxonomy:** The Australian sustainable finance taxonomy is a tool that will support companies, lenders and investors to identify and substantiate economic activities – including assets, projects, facilities, and technologies – that make a positive contribution to climate change mitigation in line with the objectives of the Paris Agreement. The taxonomy forms part of the Australian government's sustainable finance roadmap and has been developed by independent experts guided by credible Australian Paris-aligned scenarios. The taxonomy can serve as a helpful reference for organisations to demonstrate how forward-looking investment targets articulated in transition plans align with credible pathways to net zero. While voluntary, disclosing taxonomy alignment metrics can enhance stakeholder confidence in transition plans, support sustainable finance access, and demonstrate long-term commitment to the net zero transition.
- **Transition Pathways Initiative (TPI):** The TPI was established by a group of asset owners to develop a tool for assessing the progress of companies in transitioning to a global low-carbon economy. Its methodology is based on two criteria. First, Management Quality assesses whether a company's governance structures support decarbonisation. Second, Carbon Performance compares a company's emissions against climate scenarios aligned with different long-term global warming outcomes. These indicators can be used by companies to inform the development of a transition plan that aligns with global asset owner expectations of better practice.
- **Net Zero Economy Authority (NZEA):** The Federal Government's NZEA was established in 2024 to promote orderly and positive economic transformation; facilitate greenhouse gas emissions reductions and ensure regions and workers are supported to manage the impacts and share in the benefits of a net zero economy. The work of the Authority, such as its Energy Industry Jobs Plan and Regional Workforce Transition Plans, may be relevant considerations for companies developing their own transition plans, including when considering workforce issues.

APPENDIX C:
Glossary of key terms

Glossary terms are indicated in bold on first use in the main text.

TERM	DEFINITION
AASB S2	Australia's mandatory climate-related disclosure standard, based on IFRS S2. Requires disclosure of governance, strategy, risk management, metrics and targets related to climate.
Just transition	An approach that seeks to ensure the social and economic changes brought about by climate action are fair, inclusive and support affected workers and communities.
Materiality	The threshold at which climate-related risks or opportunities could influence the decisions of investors or stakeholders. Financially material issues require disclosure.
Physical risks	Risks resulting from climate-related physical impacts, such as extreme weather events, sea level rise, or long-term shifts in climate patterns.
'Say on Climate'	An advisory, non-binding shareholder vote on a company's climate strategy or transition plan, intended to provide investor feedback and enhance transparency.
'Say–do' gap	The disconnect between an organisation's stated intentions or commitments and its actual behaviour or preparedness to act. In the context of climate governance, a say–do gap can misrepresent an organisation's climate risk exposure, leading to reputational damage and potential legal consequences for the organisation and its board.
Scenario analysis	A tool used by organisations to explore and understand the potential impacts of different climate-related futures on strategy and operations.
Scope 1, 2 and 3 emissions	Categories of emissions as defined by the Greenhouse Gas Protocol: scope 1 covers direct emissions; scope 2 includes indirect emissions from purchased electricity; scope 3 includes all other indirect emissions in the value chain (upstream or downstream).
Transition risks	Risks associated with the shift to a lower-carbon economy, such as regulatory changes, shifting market preferences, or reputational risks.

APPENDIX D:
Interview methodology and acknowledgments

To develop this resource, the AICD and ACSI engaged directly with directors and investors to understand how boards are approaching climate transition planning in practice.

Interviews and roundtables

The project drew on qualitative insights from in-depth one-on-one interviews and targeted roundtables involving experienced non-executive directors (NEDs) and institutional investors. Participants represented a wide cross-section of sectors, including banking, resources, infrastructure, energy, healthcare, superannuation, and retail.

- One-on-one interviews were conducted with current and former chairs and directors of ASX-listed companies, not-for-profits, and major institutional investors. These interviews explored personal experiences with transition planning, governance challenges, and emerging better practice.
- Roundtables were held in late 2024 and early 2025:
  - Two roundtables were held with NEDs, focusing on board oversight, stakeholder engagement, and commercial integration.
  - A third roundtable involved senior representatives from Australian institutional investors, exploring how transition planning information is used in investment decision-making.

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ABOUT AICD

The Australian Institute of Company Directors is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership includes directors and senior leaders from business, government and not-for-profit sectors.

ABOUT ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with more than $1.9 trillion in funds under management.

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