Risk Management Guidance

Commonwealth Climate Disclosure

This document has been developed to support you in implementing the Risk Management criteria of your entity’s climate disclosure. It is not mandatory to use this Guidance, and you should consider how the Guidance relates to your entity’s individual circumstances.

Although all climate disclosure criteria should be addressed, the format for how these are disclosed is flexible (provided it meets the General Requirements). When the climate disclosure refers to different sections of an annual report, we recommend using an index.

We recommend that you use this document alongside the examples and other resources published on the [Application Guidance website](https://www.finance.gov.au/government/climate-action-government-operations/application-guidance).

## Guide to making your disclosure

The Risk Management section of your entity’s climate disclosure should provide a high-level description of the processes and related policies your entity uses in the management of its climate-related risks and opportunities. A summary of what should be included is detailed below.

Figure 1 Summary of Risk Management criteria

## Step 1: Review related publications

Review the Risk Management section(s) of your annual report to see what is already disclosed, for example:

* corporate governance (e.g. responsibilities of Risk Committees)
* risk management framework
* risk management policies
* risk appetite statement
* climate risk assessment process (if applicable).

There is no need to duplicate relevant content in other sections of the annual report within your climate disclosure section.

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| **Tip:** Information that is publicly available at the same time and on the same terms as the climate disclosure can be disclosed by linking to the public document. For example:   * The [Department of Climate Change, Energy, the Environment and Water](https://www.dcceew.gov.au/sites/default/files/documents/dcceew-2023-24-annual-report.pdf) disclosed that its 2024-25 Corporate Plan contained a new enterprise risk on their ability to manage climate-related risks in the delivery of operations and achievement of their purposes. * The [Australian National Audit Office](https://www.anao.gov.au/work/annual-report/anao-annual-report-2023-24) provided a link to its Risk Management Framework 2022-2024 when outlining its risk management practices.   Refer to entities’ FY2023-24 annual reports linked above for further details. |

## Step 2: Undertake a climate risk and opportunity assessment

[The Australian Government’s Approach to Climate Risk and Opportunity Management in the Public Sector 2024-2026](https://www.dcceew.gov.au/sites/default/files/documents/climate-risk-management.pdf) sets out the expectations for climate risk assessment and management by Commonwealth entities and Commonwealth companies.

If your entity has not undertaken a climate risk and opportunity assessment before, you are encouraged to conduct an assessment in adherence with the [Climate Risk and Opportunity Management Program (CROMP)](https://www.dcceew.gov.au/climate-change/policy/adaptation/climate-risk-opportunity-management-program). The [Climate Risk Management Organisation Application Guide](https://www.dcceew.gov.au/climate-change/publications/climate-risk-opportunity-management-program-resources) does not assume any prior knowledge and details the below 6 steps of the process:

If your entity has previously undertaken a climate risk and opportunity assessment, you should review and update the assessment to include any additional climate-related risks and opportunities that your entity may be exposed to and any additional actions that are needed to manage them. It is important that you confirm the scope of your assessment is in line with the progressive implementation schedule (Table 1) in the General Requirements.

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| **Note:** If your entity has climate risk and opportunity assessment practices already in place or chooses to adopt an alternate methodology, you should disclose your reasoning for deviating from CROMP in your climate disclosure and ensure that your alternate methodology is robust and defensible. |

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| **Case study: example of undertaking a climate risk and opportunity assessment using CROMP**   * The [Department of Defence](https://www.defence.gov.au/about/accessing-information/annual-reports) commenced its first climate risk and opportunity assessment using CROMP resources and tools, and provided detail of their completed actions under Step 1 and Step 2 of the Program. * The [Department of Climate Change, Energy, the Environment and Water](https://www.dcceew.gov.au/sites/default/files/documents/dcceew-2023-24-annual-report.pdf) undertook an organisation-wide climate risk and opportunity assessment, informed by workshops across the department and utilising the Climate Risk Management Organisation Application Guide.   **Case study: example of undertaking a climate risk and opportunity assessment using a robust and defensible** **alternative methodology**   * The [Clean Energy Finance Corporation](https://www.cefc.com.au/document?file=/media/d3dodzn3/cefc_annualreport2023-24.pdf) considered climate-related risks and opportunities in line with its risk management framework, and conducted their first climate physical risk assessment using a climate risk analytics tool to assess the impact of Intergovernmental Panel on Climate Change (IPCC) temperature scenarios.   Refer to entities’ FY2023-24 annual reports linked above for further details. |

## Step 3: Outline processes and related policies used

Your disclosure against the Risk Management criteria will include information about how your climate risk and opportunity assessment was undertaken. If your entity followed the step-by-step approach outlined in CROMP, you can leverage the relevant associated documentation by providing a link in your disclosure (see example below).

Where other processes and related policies were drawn on, this will need to be described in your disclosure. For example, your risk management framework may establish how your entity identifies, assesses, manages and monitors risks throughout your organisation. You could refer to your risk management framework if you used the same likelihood and consequence criteria to assess climate-related risks. You could also refer to your entity’s risk appetite statement if this was used to determine actions to manage climate-related risks.

Specific information to disclose for climate-related risks includes:

In disclosing information about inputs and parameters, you might like to consider information about data sources, the significant areas of uncertainty and the scope of operations covered in the processes.

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| Tip: Refer to the [Climate Risk Management Technical Guidance](https://www.dcceew.gov.au/climate-change/publications/climate-risk-opportunity-management-program-resources) for more guidance on scope and uncertainties, and to access links for recommended climate scenarios and datasets to use in your climate risk and opportunity assessment. |

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| **EXAMPLE**  **Non-corporate Commonwealth entity using CROMP for climate-related risks**  We conducted our first climate risk and opportunity assessment this year following the 6 steps outlined in the Climate Risk and Opportunity Management Program’s [Organisation Application Guide](https://www.dcceew.gov.au/climate-change/publications/climate-risk-opportunity-management-program-resources).  Our staff health and safety and infrastructure, assets and operations were in scope of the assessment. We intend to broaden this scope in future reporting years in line with the progressive implementation schedule. Internal data sources, such as our enterprise risk management framework, incident registers and insurance claims, were reviewed in Step 1 and Step 2 of the assessment. National datasets, including the IPCC Sixth Assessment Report (2021), Climate Change in Australia, the State of the Climate 2024 report and the climate scenario and transition summaries in the CROMP Organisation Application Guide’s Appendix, were used to obtain climate information for our organisation’s two main metropolitan areas of operation (Canberra and Perth).  A source of uncertainty in the assessment stems from our entity being newly established in 2021, limiting access to long term internal data. Uncertainties in climate projections have been managed by reviewing and using data from three reputable datasets from Australian and international climate science organisations. Uncertainties in how risk profiles will change in future under different climate scenarios have been managed by assessing risks across two distinct climate scenarios (one low and one high) to compare projected changes and understand the range of plausible outcomes.  The effects of our identified climate-related risks were assessed using the likelihood, consequence and severity evaluation criteria from our existing enterprise risk management framework. All risks to our organisation, including climate-related risks, were prioritised based on their residual risk rating against our Risk Appetite and Tolerance Statements, in accordance with the Commonwealth Risk Management Policy. Actions to manage climate‑related risks were informed by our enterprise risk management framework.  Our climate-related risks are monitored and managed by our executive team, with the Performance and Risk Committee having an oversight and advisory role, in accordance with our standard risk management practices. |

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| EXAMPLE  **Corporate Commonwealth entity using a pre-existing robust and defensible process for climate-related risks**  Initial work to conduct a physical climate risk and opportunity assessment was completed in 2021-2022 using the [Climate Risk Ready NSW Guide](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-proposal-Sydney-Water-Chapter-3-NSW-Climate-Risk-Ready-Guide.PDF). This year, we updated our assessment in response to the increased frequency and severity of extreme weather events and updates to climate information and projections that have occurred over recent years, and in consideration of [The Australian Government’s Approach to Climate Risk and Opportunity Management in the Public Sector 2024-2026](https://www.dcceew.gov.au/sites/default/files/documents/climate-risk-management.pdf). While we used the same process this year to identify physical climate-related risks, we amended our process to include a review of the organisation’s exposure to climate-related transition risks. We also expanded our scope to include the organisation’s key purpose/outcomes and concessional loans program alongside our infrastructure, assets and operations. With these two amendments our process is more aligned with the steps in CROMP.  Our risk management framework, incident registers and insurance claims formed the foundational internal data sources used in our assessment. National and regional datasets, such as the IPCC Sixth Assessment Report (2021), NSW and ACT Regional Climate Modelling (NARCliM) and the Climate Change in Australia Regional Climate Change Explorer, were used to obtain climate information for the locations of our two offices (Canberra and Newcastle). Uncertainties in climate projections have been managed by reviewing and using data from three reputable datasets from Australian and international climate science organisations. Uncertainties in how risk profiles will change in future under different climate scenarios have been managed by assessing risks across two distinct climate scenarios (one low and one high) to compare projected changes and understand the range of plausible outcomes.  The effects of our identified climate-related risks were assessed using the likelihood and consequence evaluation criteria from our existing risk management framework. All risks to our organisation, including climate-related risks, were prioritised based on their residual risk rating against our Risk Appetite Statement. Our risk management framework and Risk Appetite Statement are aligned with the Commonwealth Risk Management Policy as a matter of good practice. Actions to manage climate-related risks were informed by our risk management framework.  Our climate-related risks are monitored and managed using our standard risk management practices. The Board is ultimately responsible for the organisation’s risk management activities. Our Chief Risk Officer and executive team make operational decisions about how risks are monitored and managed within our organisation and our Audit and Risk Committee maintains regular oversight of the risk management function. |

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| **Note:** The requirements for climate-related risks are more detailed than those for climate‑related opportunities. This is due to the relative maturity of risk management processes compared to that of opportunity management. |

The processes and policies used to identify, assess, prioritise, manage and monitor climate-related opportunities may be similar or different to those used for climate-related risks. For example, climate-related opportunities may be prioritised alongside climate-related risks using existing risk management framework processes and risk registers, or they could be prioritised using a multi‑criteria analysis approach, taking into account criteria such as strategic alignment, risk appetite, resource requirements and co-benefits.

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| Tip: Refer to the [Climate Risk Management Organisation Application Guide](https://www.dcceew.gov.au/climate-change/publications/climate-risk-opportunity-management-program-resources) for more guidance on using a multi-criteria analysis approach for climate-related opportunities. |

## Step 4: Integrate into the overall risk management process

It is good practice to integrate your climate-related risks and opportunities into your entity’s existing risk management system and processes. For example, you may include climate risk as a main risk category or identify climate change as a driver of existing risks. You may also integrate the findings on your climate risk and opportunity assessment into your entity’s risk register. Where any such integration occurs, you should outline this in your climate disclosure.

The monitoring of climate-related risks and opportunities should closely align with your entity’s existing risk management practices to monitor risk. You should also have processes in place to regularly review priority climate-related risks and opportunities, in line with your entity’s existing risk management procedures for periodic review, to ensure their continued management.

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| **Note:** Integrating climate-related risks into existing risk management processes may require some adjustment to the existing processes, given the unique characteristics of climate-related risks. For example, climate-related risks tend to have longer time horizons and long-lived effects than other types of risk and require assessment across different climate scenarios. |

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| Tip: Refer to the [Climate Risk Management Organisation Application Guide](https://www.dcceew.gov.au/climate-change/publications/climate-risk-opportunity-management-program-resources) and the [TCFD Guidance on Risk Management Integration and Disclosure](https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Risk-Management-Integration-and-Disclosure.pdf) for more guidance and examples on how to integrate climate-related risks and opportunities into your risk management system. |

# Document control

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| 1 | 17/02/2025 | Initial publication |

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