**Investor Briefing**

**ACCR/AODP ANZ ‘Financed emissions’ resolutions**

**Ticker:** ANZ

**AGM Date and location:** Thursday 18 Dec Melbourne

**Resolution[[1]](#footnote-1):**

‘Ordinary resolution: resolved in consideration of the annual Directors Report laid before this meeting the shareholders express their concern at the absence of: (a) an assessment of reference to: the quantum of greenhouse gas emissions we are responsible for financing; the level and nature of ‘unburnable carbon’ risks we face; and our current approaches to mitigating those risks. (b) any reference to a target for future absolute reductions in our bank’s total financed emissions which would serve to mitigate our exposure to unburnable carbon risk.’

**Background**

Under the United Nations Framework Convention on Climate Change countries have agreed that 2° C of global warming is the maximum acceptable upper threshold. This agreed ceiling sets a ‘budget’ on worldwide fossil fuel emissions. Current fossil fuel business valuations involve a fundamental intellectual ‘fallacy of composition’. Investor's expectations cannot be met as they have become divorced from physical reality and committed policy response. Currently, in aggregate, fossil fuel companies are estimating with 90% certainty that they will be able to extract freely (for subsequent sale and combustion) over three times more carbon than is compatible with the internationally agreed ceiling. This contradiction is referred to as the ‘unburnable carbon bubble’. [[2]](#footnote-2)

**Top 4 Australian banks**

Because they finance emissions the 4 major Australian banks have three potential sources of exposure to this ‘unburnable carbon bubble’ bursting:

* On balance sheet loss resulting from (a) credit risk exposure in the event of debt default or (b) equity write down on bank owned assets;
* regulatory, reputational and legal risk exposure stemming from their trustee and fiduciary duties as (a) custodians or (b) wealth managers in the event their risk management is found wanting;
* equities market risk exposure in the event of significant write-downs of the market value of the equity in reserve owners and extraction businesses, fossil fuel generators and companies whose clientele is substantially drawn from these businesses. Write downs affecting the banks could result from equity holdings by their (a) defined benefit super funds or (b) insurance operations.

Using information publicly available and data supplied by CAER/EIRIS[[3]](#footnote-3) the ACCR evaluated the ‘post-treatment’ exposure of the top 4 Australian banks to this unburnable carbon risk.[[4]](#footnote-4)

**ANZ**

The ACCR paper ‘Financed emissions, unburnable carbon risk and the major Australian banks’ ranked the top four banks from least to most exposed. ANZ ranked second most exposed. It had the largest on balance sheet debt exposure – 14% of 2013 bank equity, the second largest equities market exposure but a poor rating from the AODP

Earlier in the year resolutions dealing with disclosure of financed emissions attracted close to a one quarter vote in support at the AGM’s of Bank of America and PNC Financial.[[5]](#footnote-5)

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1. Please note Australian law is unclear about the validity of ordinary resolutions in this form and it is possible a similarly worded second preference special resolution will be included on the notice of meeting by ANZ. [↑](#footnote-ref-1)
2. Despite this ‘bubble’ globally fossil fuel subsidies exceed renewable energy subsidies by a factor of six. For a more extensive discussion of public policy, investment risk and company valuations see *Climate proofing your investments: moving funds out fossil fuels,* TAI, March 2014 at <http://www.tai.org.au/content/climate-proofing-your-investments-moving-funds-out-fossil-fuels> . [↑](#footnote-ref-2)
3. See [www.**caer**.com.au](http://www.caer.com.au) . [↑](#footnote-ref-3)
4. See [www.accr.org.au/bigbanks](http://www.accr.org.au/bigbanks) . [↑](#footnote-ref-4)
5. See <http://www.ceres.org/investor-network/resolutions> . [↑](#footnote-ref-5)