ENVIRONMENT, SOCIAL, GOVERNANCE

QUESTION

Background

It is July 2025. After the signing of the COP21 agreement in 2015, agreeing to limit carbon emissions to a level that will keep temperature increases below 2 degrees Celsius, the world has experienced many years of natural disasters and extreme weather events. At the latest meeting of countries to address climate change, (called MOP31), countries have agreed to take drastic measures to reduce carbon emissions.

The wealthy country of Alasia is one of the signatories to MOP31. Alasia has a population of about 20 million people. Alasia is one of the countries being most affected by climate change, particularly by flooding and bush-fires. It is also a major exporter (and user) of carbon fuels, including coal, gas and oil.

One of the focus areas of MOP31 is on financial markets and their role in financing companies involved in the emission of carbon. Governments that are signatories to MOP31 have agreed to make standards for compulsory disclosure, and reduction, of the carbon intensity of investments. The purpose of the new standards is to:

- Ensure that investors are fully informed as to the carbon intensity of their investments.
- Ultimately, reduce carbon emissions by reducing carbon industries' attractiveness as an investment and thereby increasing their cost of capital.
- Encourage investment in renewable energy companies.

The financial regulator in each country is required to make its own standards to drive these outcomes. The financial regulator in Alasia is called RAPPA. Today, RAPPA released a new standard requiring that:

- It is compulsory for each financial institution to include a "Carbon Intensity Disclosure Document" in its annual report each year (starting from 30 June 2026 i.e. next year).
- Within 3 years, financial institutions must reduce the carbon intensity of their investments by 20% of the level as at 30 June 2025.
- Within 10 years, financial institutions must reduce the carbon intensity of their investments by 80% of the level as at 30 June 2025

Financial institutions in Alasia, dominated by large superannuation funds, are in shock over this new standard. The superannuation fund industry in Alasia is highly competitive, with funds competing with each other to attract the superannuation savings of Alasians. All Alasians must contribute 10% of their earnings to superannuation each year, but they can choose which superannuation fund they invest with.

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Your Task

You are the Chief Executive Officer for one of Alasia's medium sized superannuation funds, Carbasia Super Ltd. About 100,000 Alasians have their super with Carbasia Super. Carbasia Super has $10 billion of investments, and the current breakdown of these investments is shown in Attachment 1. Many members of Carbasia Super work in the mining, forestry and energy industries. Carbasia Super is a "profit for members" fund – i.e. it is owned by its members and does not have shareholders.

On Friday night (after markets closed) RAPPA released a draft of the new standard. Your task is to write a report for the Board of Carbasia Super setting out the many issues arising from the standard and a plan (short term and long term) for how you will respond as Chief Executive Officer. Illustrate some of your comments with data, forecasts or scenarios drawn from Carbasia Super's investment profile. Your report needs to be with the Carbasia Board by Sunday evening, when a special Board meeting has been convened.

Further Information

Carbon intensity measures the exposure of different companies to causing fossil fuel emissions. This could be through extracting (digging up) fossil fuels, through transporting fossil fuels, through burning fossil fuels or being very dependent on companies involved in these activities.

Carbon intensity measurement normally includes both items that affect the Profit and Loss statement (e.g. sales of oil in a year) and also items that affect the balance sheet (e.g. inclusion of coal reserves on the Balance Sheet of a coal mining company).

The website www.carbontracker.org may be a helpful resource in answering this question.

Assumptions

You should feel free to make any assumptions you wish in this question, but you should state these in your report. The assumptions should be reasonable overall but do not need to reflect any actual country or company experience. The portfolio in Attachment 1 is the starting point for the measurement of carbon intensity reductions.

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Attachment 1

ALASIA INVESTMENT PORTFOLIO AS AT 30 June 2025

Alasia $ (millions)

	Domestic (Alasia)	Global	TOTAL
Equities			
Energy	310	195	505
Materials	1,088	133	1,221
Industrials	292	305	597
Consumer discretionary	152	349	501
Consumer staples	328	316	644
Health Care	141	373	514
Financials	1,618	531	2,149
Information Technology	25	391	416
Telecommunication services	180	104	284
Utilities	66	103	169
Total equities	4,200	2,800	7,000
Fixed Interest			
Sovereign bonds	600	750	1,350
Corporate credit	900	750	1,650
Total fixed interest	1,500	1,500	3,000
TOTAL	5,700	4,300	10,000

END OF QUESTION

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