CLIMATE-RELATED VARIABLES RELEVANT TO FINANCIAL PROSPECTS

Australia’s Nationally Determined Contributions (NDC) will be a relevant assumption regarding an entity’s exposure to climate-related risks. However, the NDC is unlikely to be the only climate-related variable that may materially impact relevant accounting estimates, or financial prospects (see Figure 1).

SNAPSHOT: AUSTRALIA’S NDC

Nationally Determined Contributions (NDCs) are the primary mechanism by which parties like Australia respond to climate change under the international 2015 Paris Agreement.

Australia’s NDC is likely to be a relevant (but not the only) driver of the variables in gold.

Australia’s NDC is unlikely to have a significant impact on the variables in blue.

SNAPSHOT: AUSTRALIA’S NDC

Nationally Determined Contributions (NDCs) are the primary mechanism by which parties like Australia respond to climate change under the international 2015 Paris Agreement.

Australia’s NDC emissions reduction target (26-28% by 2030 vs a 2005 baseline) is relatively low by international standards.

These are subject to a five year review cycle and are intended to increase in ambition. It is likely Australia will face international and domestic pressure to increase the ambition of its NDCs at these times.
THE ROAD AHEAD

There are several potential Paris-compliant trajectories for Australia’s future NDCs, depending upon whether the country adopts a net zero target for 2050 (compatible with a global 1.5°C scenario) or 2070 (compatible with a global 2°C scenario) and the pace at which emissions reductions occur.

According to the Intergovernmental Panel on Climate Change an emissions reduction trajectory that does not achieve net zero emissions until late in the century would contribute to global warming of over 3°C or more and would not be compatible with the Paris Agreement temperature goals.

There may be a range of ‘reasonable’ paths by which Australia’s NDC (and derived policies) will increase in ambition for emissions reduction over time. All else being equal, the longer the delay and the steeper the ambition under subsequent NDCs, the more likely there will be a disorderly transition to a low carbon economy.

There is no ‘fair share’ principle for industry sectors in the Paris Agreement, nor specified in Australia’s current NDC. The NDC is completely open as to how the burden of future emissions reductions will be shared by different sectors of the Australian economy.

It is incumbent on business leaders to develop the skills and expertise within their organisations to integrate climate change assumptions into accounting estimates and disclosures.

View the full report - Australia’s international climate change commitments - accounting assumptions and auditing of climate risk disclosures.

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