

DIRECTORS AND BUSINESS LEADERS CLIMATE RISK DISCLOSURES



Information regarding the impacts of climate change on an entity's financial position, performance and prospects should be regarded as decision-useful to a reasonable investor and is therefore material in a disclosure context.

Climate-related assumptions on which reporting calculations and disclosures are based are also likely to be material, given the range of variables and breadth of uncertainty associated with the relevant trajectories and impacts.

Key elements of Australia's legal architecture include:

- Corporations Act 2001 (Cth).
- ASIC Regulatory Guide 247.
- Australian accounting standards.
- Australian auditing and assurance standards.
- AASB / AUASB joint guidance Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB / IASB Practice Statement 2.
- Listing Rules and ASX Corporate Governance Code.

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).

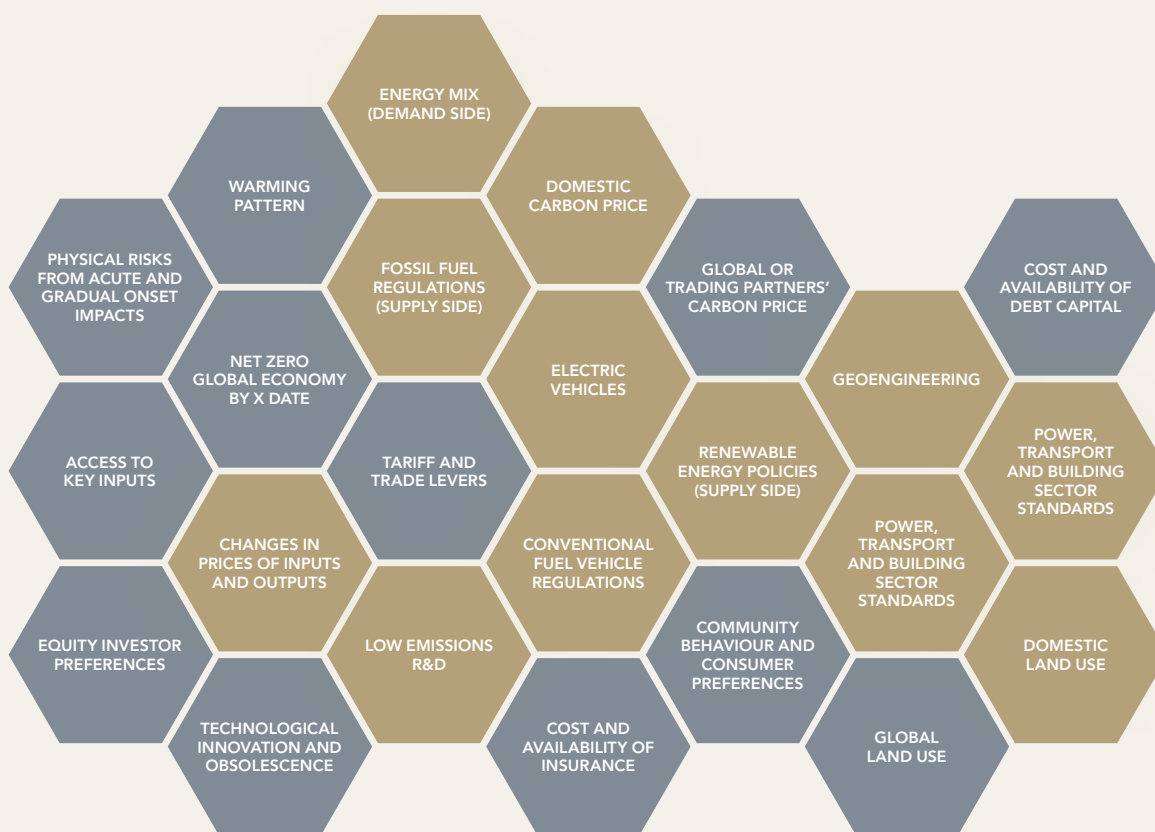


FIGURE 1
Climate risk and opportunity variables that may be relevant in determining the trajectory of climate-related impacts and their consequences for an entity's financial position, performance or prospects.

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.

HOW WILL CLIMATE CHANGE AFFECT AUSTRALIA'S ECONOMY?

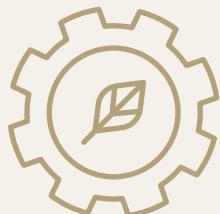
The Australian economy is 'high risk' when it comes to climate-related financial risks.

Climate-related financial risks (and opportunities) include:



Physical

e.g. property, agriculture and the environment destroyed by natural disasters or extreme weather events



Transition

e.g. assets such as coal mines decreasing in value as people switch to renewable energy, but creating the prospect of new jobs and emerging industries



Financial

e.g. increased cost to insure property, increased power prices, stranded or impaired assets



Supply

e.g. difficulty in supply of goods such as food, as industries are impacted

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.

Prepared with the assistance of University of Melbourne.