

AUSTRALIA'S INTERNATIONAL CLIMATE COMMITMENTS

CLIMATE RISK DISCLOSURES



AUSTRALIA'S COMMITMENTS UNDER THE PARIS AGREEMENT

AIM: To keep global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C, recognising that this would significantly reduce the risks and impacts of climate change.

- Nationally Determined Contributions (NDCs) are the primary mechanism by which parties like Australia contribute to the global response to climate change.
- Countries independently determine their emissions reduction targets and the policy measures included in their NDCs.
- Australia's current NDC is for a 26-28% reduction in emissions by 2030, relative to 2005 levels. Australia plans to use carry over credits from the Kyoto Protocol to meet its emissions reduction target.
- Paris Agreement parties have been requested by the UNFCCC COP to update their first NDCs and increase their ambition prior to 2020 but parties are under no binding legal obligation to do so.
- There is strong expectation under the Paris Agreement that parties' NDCs will ratchet up in ambition over time. Some commentators have framed this as a 'due diligence' obligation (governments acting in proportion to the risk at stake and to the extent of the capacity they employ).
- The 'ambition cycle' of the Paris Agreement sets a five-yearly cycle for review and revision of NDCs. At these regular points in the cycle, Australia is likely to face growing international and domestic pressure to increase the ambition of its NDC.
- 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.
- However, 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.

ASSUMPTIONS FOR ACCOUNTING AND AUDITING OF 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 an entity's calculations and disclosures are based are likely to be material, given the range of variables and breadth of uncertainty associated with the relevant trajectories and impacts.
- Climate-related financial risks (and opportunities) broadly include physical impacts (both acute and gradual onset), economic transition impacts (policy and regulatory developments, technology and stakeholder preference shifts), and liability exposures.
- Australia's NDC is only one variable in determining an entity's exposure to economic transition risk as a signal of Australia's trajectory towards emissions reduction targets.
- There are also a number of other significant climate change-related variables that may be material to, if not determinative of, the impact on a reporting entity's financial position, performance and/or prospects.
- Relevant variables and assumptions will necessarily be entity-specific.
- There may be a range of reasonable paths by which Australia's NDC (and derived policies) will increase in emissions reduction ambition over time. All else being equal, the longer the delay, the steeper the ambition under subsequent NDCs, and the more likely there will be a disorderly transition to a low carbon economy.
- There is no 'fair share' principle for industry sectors in either the Paris Agreement, or 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.

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