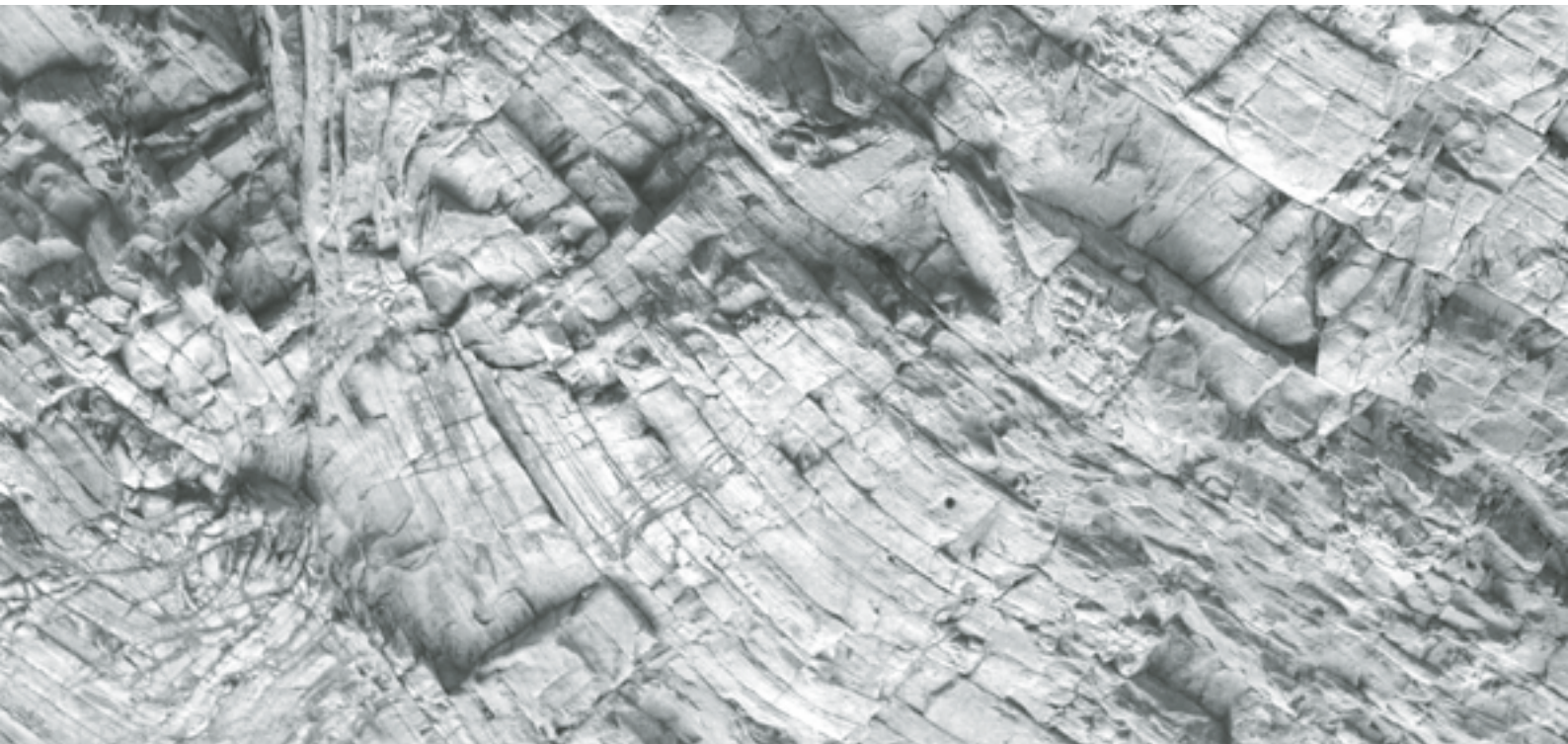
ACCOUNTANCY FUTURES

COP 17 and accountants: where next?



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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 147,000 members and 424,000 students in 170 countries, helping them to develop successful careers in accounting and business, and equipping them with the skills required by employers. We work through a network of 83 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote the appropriate regulation of accounting. We also conduct relevant research to ensure that the reputation and influence of the accountancy profession continues to grow, proving its public value in society.

ABOUT ACCOUNTANCY FUTURES

The economic, political and environmental climate has exposed shortcomings in the way public policy and regulation have developed in areas such as financial regulation, financial reporting, corporate transparency, climate change and assurance provision.

In response to the challenges presented to the accountancy profession by this new business environment, ACCA's *Accountancy Futures* programme has four areas of focus – access to finance, audit and society, environmental accounting, and corporate reporting. Through research, comment and events ACCA will contribute to the forward agenda of the international profession, business and society at large.

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This paper introduces the 17th meeting of the signatories to the UN Framework Convention for Climate Change (UNFCCC), taking place in Durban, South Africa, in late 2011 (COP 17).

The paper summarises the opinions of a panel of climate change experts on different aspects of the UNFCCC negotiations.

It also reviews how accountants can make a positive contribution to the development of a global policy response to climate change.

ACKNOWLEDGEMENTS

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Foreword

Today's accountancy profession and business community face a series of daunting challenges. Whether adapting to shifts in power in the global economy, agreeing upon one global standard for financial reporting, or dealing with the continuing after-shocks of the global financial crisis, each of these challenges is significant in itself.

The threat posed by, or action required to overcome, each of these challenges pales in comparison with that posed by climate change. Domestic and international political tensions, and a lack of trust and credibility continue to undermine any attempt we make as a global community to solve this problem.

And it is a problem we must solve: our natural world is the foundation for everything else. It is the foundation of business success. It is the foundation of economic growth. It is the foundation of our way of life.

We can solve the world's financial problems, but without solving the challenges to the sustainability of our natural world, these other achievements will be in vain.

ACCA has long recognised the importance of the climate change challenge. Moreover, it has long made the case that the accountancy profession can, and should, make a significant contribution to the global community's efforts to confront this challenge.

This report gathers expert comment from the world of accountancy and business to inform debate on the subject and propose a route-map that can help in achieving the so-far elusive global agreement on greenhouse gas emissions reduction. Such an agreement would provide a huge boost to the global community's efforts to tackle climate change head-on.

Helen Brand
ACCA chief executive

Executive summary

November–December 2011 sees the 17th annual meeting of the signatories of to the UN Framework Convention for Climate Change (UNFCCC) take place in Durban, South Africa. This meeting is more commonly known as 'COP 17' and sees climate experts, businesses, and nation-states gather to seek ways to limit human impact on our climate.

This paper introduces some of the background to the Durban meeting, expert opinions on climate change negotiations, and the potential role for accountants and business in creating an innovative, credible framework for climate change mitigation activities.

The expert opinion is drawn from voices across the business, accountancy, and policymaking fields. Included are a range of views on the legacy of the Kyoto Protocol, the expectations of COP 17, voluntary emissions reductions targets, the importance of private finance and enterprise in mitigating climate change, and the role accountants can play in providing credibility for mitigation activities.

Broadly, the consensus of our experts is as follows.

- The Kyoto Protocol was a breakthrough agreement, but a flawed one. Its failure to address the future obligations of countries not covered by the agreement has created a political stand-off preventing any new international agreement on emissions reduction.
- Expectations of COP 17 are low, but discussions can still produce small steps needed to reach an eventual more comprehensive agreement.
- Voluntary emissions targets are a necessity without an international, binding agreement but they are not guaranteed credibility, while uncoordinated action may not be enough to avert catastrophic climate change.
- Private enterprise and finance have an important role to play in mitigating climate change. They provide innovation and resources, but they are currently not utilised nor supported enough by the UNFCCC process.
- Accountants will have an important role to play in measuring, reporting, and validating climate change mitigation efforts, but that some developments in skills and tools are needed.

Finally, this paper examines the accountancy profession's preparedness for the role of supporting climate change mitigation efforts. The development of new skills and tools are required, but the profession has proved itself adaptable in the past and is likely to do so again in future.

The paper concludes that the gradual COP process is worthwhile as it helps build towards an eventual international binding agreement on emissions reduction. The accountancy profession has a key role to play in building the trust and credibility needed in this process by providing reliable and credible oversight of emissions reduction frameworks and activities.

KEY POINTS IN THIS PAPER

For accountants

Skills
The profession must use its technical skills and strategic understanding to help clarify goals and actions when it comes to climate change policy formulation and implementation. The accountancy profession has the skill-set to provide mechanisms to effectively monitor and review policy outcomes and performance.

Leadership
The accountancy profession needs to be pro-active in shaping the formulation of climate change mitigation policies. Using its extensive experience of measuring, reporting, and validation mechanisms, the profession needs to make sure its expertise makes a positive contribution to the formulation of credible policy frameworks and agreements.

Renewal
The accountancy profession must continually expand its knowledge base and develop new mechanisms to underpin the reporting of credible emissions and climate change mitigation information.

Education
The accountancy profession needs to reshape its educational curriculum and skills requirements to provide the necessary confidence and trust in the capabilities and integrity of the profession to help mitigate climate change.

For businesses

Collaboration
Businesses, as stakeholders in the green economy, have a pivotal role to play in policy formulation. They need to speak up to ensure their experiences, innovations, and concerns feed into the policymaking process.

For policymakers

Inclusivity
Policymakers need to ensure that private finance and business initiatives become part of a co-ordinated international programme of action if gains in international climate change negotiations are not to be squandered and real and lasting impacts made. Private and international efforts cannot sit in silos.

Certainty
Policymakers need to provide more certainty to business on both the direction and speed of travel of climate change policy formulation.

Agreement
Policymakers need to implement legally binding targets for GHG emissions reduction. To be able to set such targets, an effective system needs to be established for the measurement, reporting, and validation of efforts to reduce GHG emissions.

Background to COP 17

Between 28 November and 9 December 2011, thousands of climate change experts – government negotiators, scientists, campaigners, and business people – will come together in Durban, South Africa for COP 17 (Conference of the Parties 17th meeting).

The meeting will be attended by the signatories to the UN Framework Convention for Climate Change (UNFCCC). Currently, there are 195 Parties (194 States and 1 regional economic integration organisation) to the UNFCCC.[1] The ultimate objective of the UNFCCC is to limit human interference in the earth's climate.

COP 3 in 1997 produced the Kyoto Protocol, which established legally binding obligations for developed economies to reduce their greenhouse gas (GHG) emissions. Recent COPs have focused on establishing a post-Kyoto framework for emissions reductions or limits. The Kyoto Protocol expires in 2012.

Given the time it took between the agreement in Kyoto and its actual implementation (1997–2005), there is the sense that time is running out for establishing a new global framework to begin immediately after the end of the Kyoto Protocol.

Amid initial optimism, 2009's COP 15 in Copenhagen was presented as the 'last chance' to achieve a framework that could begin in 2012. Despite high hopes and a return of the US to the negotiating table, COP 15 failed to produce a binding agreement, as did COP 16 in Cancun the following year.

Despite a failure to produce a 'new Kyoto', COPs 15 and 16 were not without their successes. The two meetings have produced agreements for a 'Green Climate Fund' (GCF), which promises to raise up to $100 billion per year by 2020 to fund costs associated with combating climate change. There was also an agreement at COP 16 to limit global warming to 2°C above pre-industrial temperatures, with an acknowledgement that this target could be reduced to 1.5°C.

As with its predecessors, Durban is unlikely to produce a legally binding emissions reduction framework. There is still no consensus on what will happen post-2012 and the political challenges that have prevented deals in the past have yet to be resolved. Durban represents something of a fork in the road: what direction will the international negotiations take?

THE POLITICS OF CLIMATE CHANGE

The disagreements that have undermined previous negotiations will still exist at Durban. Developing economies, such as India and China, would be happy to see the Kyoto Protocol continue in its present form, with binding emissions reductions targets only for developed economies, not for countries such as India or China. Some developed economies that are signatories to Kyoto, such as Russia, Japan and Canada, would be happy to sign a new binding agreement but only if the developing economies sign it too. And there is still no guarantee that the US, the globe's second biggest polluter, would sign any kind of agreement.

Polarisation of developing and developed economies has become more pronounced since Kyoto in 1997, and especially so since the onset of the global financial crisis of the last few years. Insipid growth and domestic political developments have forced some developed economies to recalibrate their goals and efforts in their approach to international climate negotiations.

Meanwhile, developing economies have found their hands strengthened. With fast-growing economies and a leadership vacuum to fill, countries such as India and China have been able to make significant unilateral climate change commitments. China, for example, has committed itself to reducing GHG emissions by 40–45% by 2020; India has a new coal tax.

Business is also waking up to the climate change imperative. There is a growing understanding that climate change cannot be solved by an international agreement on

1. http://unfccc.int/essential_background/convention/status_of_ratification/items/2631.php

emissions reduction targets alone. There is a much larger agenda, one that concerns sustainability and green growth, a trend that will increasingly define the global economy. It is no longer a question of getting governments to agree on a policy. Governments must cooperate with business; business must cooperate with governments. As a result climate policy is now diversifying into a multi-track framework, with nations, regions and businesses developing their own approaches, individually or collaboratively with others, and in a wide variety of guises.

Further complicating the political situation is the '2nd negotiating track' established at Bali in COP 13 in 2007. Recognising that major emitters such as China and the US were excluded from the Kyoto signatories' Kyoto-replacement working group, it was decided to establish a parallel negotiating process to consider long-term cooperative action under the auspices of the UNFCCC.

On top of this, COP 15 saw a switch from a 'top-down' to a 'bottom-up' approach to agreements. While there was no overarching, binding agreement, individual countries made voluntary emissions reduction pledges subject to periodic review. Awkwardly, some countries are very sensitive to external scrutiny of voluntary commitments. Nonetheless, this patchy bottom-up, 'pledge and review' process could become the only way forward in the absence of any binding international agreement.

THE ACCOUNTANCY CONTRIBUTION

Regardless of the nature of climate change policy responses, there will always be a need for rigorous and credible institutional arrangements. Any investment in climate change mitigation or adaptation must be able to show it has fulfilled its aims, in a credible and verifiable fashion. Only what can be measured can be managed.

Any meaningful commitment to tackling climate change will need extensive input from the accountancy profession. The demands for transparency and measurement inherent in any serious international project will require the use of common international reporting guidelines to ensure that countries' data are complete, comparable, transparent and accurate. A lack of a binding international agreement on emissions reduction is bad, but a lack of trust, transparency, and reliability in individual approaches to emissions reduction would be worse.

To remain relevant amid conflicting arguments, the profession must use its technical skills and strategic understanding to help clarify goals and actions when it comes to climate change policy formulation and implementation. The accountancy profession has the skill-set to provide mechanisms to effectively monitor and review policy outcomes and performance.

KEY POINT

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Getting to Durban

The UNFCCC was agreed at the Rio Earth Summit in 1992 and came into effect in 1994. Since 1995, Conferences of the Parties (COP) have taken place each year, where parties to the convention assess progress in dealing with climate change. The expectations for the Durban meeting reflect the difficulties faced between the first meeting, held in Berlin in 1995, and now.

COP 3, Kyoto, Japan

Early in the history of the negotiations there was significant political will to reach agreement. To come into effect, the Kyoto Protocol required ratification by a minimum of 55 countries and for those 55 counties to be responsible for a minimum of 55% of global emissions, but it took eight years achieve this. The major stumbling block was the loss of political support in the US; President Bill Clinton signed the Protocol but the Senate refused to ratify it.

COP 7, Marrakech, Morocco

Between the signing of the Kyoto Protocol and its ratification, much work was done to establish the institutional mechanisms needed to support the implementation of the various market mechanisms it contained. In 2001, the COP completed a package of decisions known as the Marrakech Accords. These included a package of operational details for the Clean Development Mechanism and Joint Implementation, and for compliance and accounting (the rules for monitoring, reporting and verification). This package of rules would enable nations to implement the Kyoto Protocol once it was ratified.

1995 2001

COP 15, Copenhagen, Denmark

The return of the US to the negotiations generated optimism. This was short-lived as it became clear that the US and a number of other countries were not intending to negotiate a new binding agreement for the period following 2012. As a result, no such agreement was reached in Copenhagen, although the meeting did produce some results, including the Copenhagen Accord.

The Copenhagen Accord, a package of commitments, was negotiated by 26 countries outside the formal COP process and 'noted' but not agreed by the full Conference. The Accord took a bottom-up rather than a top-down approach, calling for voluntary national commitments or pledges subject to periodic review, rather than a set of legally binding national emissions targets. The Accord also included an agreement to limit climate change to 2°C, with a review by 2015, and called for a new 'Green Climate Fund' to raise up to US$30 billion of new money between 2010 and 2012 to help developing countries. Agreement on finance was one of the few positive outcomes at Copenhagen – with broad commitments on financial flows to support climate action in developing countries replacing ambitious reduction targets.

COP 16, Cancún, Mexico

The real challenge of COP 16 in Cancun was to create a new legitimacy for the international process after the disappointment of Copenhagen. Expectations were deliberately kept low and it was clear that a comprehensive global agreement would not be discussed for some time to come. The objective was to identify useful steps that could be achieved that would move the process forward and re-establish a level of confidence. This meant taking concrete steps in the areas of adaptation, technology, finance and capacity building.

Cancun did help to restore some confidence in the UNFCCC process. There was agreement to establish the institutional arrangements to enable the national commitments to be made and tracked. Progress was also made on a number of existing mechanisms, including the clean development mechanism (CDM) and joint implementation (JI). The new Green Climate Fund (GCF) was enlarged to help mobilise US$100 billion a year by 2020, and work was done on mechanisms to provide funding for capacity building, technology transfer and to cover the costs of adaptation in developing countries.

The Cancun Agreement of December 2010 included an international commitment to limit global warming to 2°C above pre-industrial levels. Also noted was the potential need to tighten this target to 1.5°C.

COP 17, Durban, South Africa

Between COP 16 in Cancun and COP 17 in Durban there were a number of meetings (in Bangkok in April, Bonn in June, and Panama in October) to address many of the details associated with the agreements reached in Cancun.

There is still support in many countries for a comprehensive post-Kyoto agreement that would include binding emission targets. Some developed economies, including Canada, Japan and Russia, have made it clear that they do not support extending the Kyoto Protocol without changes to it.

There is little expectation that an agreement will be reached on replacing or extending the Kyoto Protocol in Durban.

2005 2007 2009 2010 2011

COP 11, Montreal, Canada

In 2005, the Kyoto Protocol was ratified when Russia agreed to sign. The US remained outside the Protocol. At the 2005 COP, one of the first actions was to establish an ad hoc working group to begin negotiating a second commitment period for post-2012.

COP 13, Bali, Indonesia

Recognising that the ad hoc Kyoto Protocol Working Group excluded many of the big emitters, the parties at the 2007 COP in Bali established a parallel negotiating process. Here, the non-Kyoto signatories that were big emitters, such as the US and China, considered long-term cooperative action under the UNFCCC. The goal was a comprehensive agreement addressing mitigation, adaptation, finance, and technology. Now that there was a second negotiating track, the Kyoto Protocol was no longer the only approach to the problem.

The expert opinion

ASKING THE EXPERTS

For this report, the views of several international climate change experts were bought together – representing businesses, accountants, academics, and negotiators – to share their thoughts on the negotiations in Durban.

In this chapter are their views on:

- the legacy of the Kyoto Protocol
- the expectations for COP 17
- 'Pledge and Review' – an alternative to Kyoto
- financing mechanisms and the role of private enterprise
- a role for accountants.

THE EXPERTS

- Sandrine Dixson-Dedève, director, The Prince of Wales's EU Corporate Leaders' Group on Climate Change and University of Cambridge Programme for Sustainability Leadership
- Joe Griffin, group environmental manager, Vodafone
- David Hone, senior climate change adviser, Group CO_2, Shell International
- Abyd Karmali, managing director and global head of carbon markets, Bank of America Merrill Lynch
- Yeon-Soo Kim, GM planning division/architect, Hyundai Engineering & Construction Co., Ltd
- Alan McGill, partner, PwC Sustainability and Climate Change Practice
- Mandy Rambharos, climate change and sustainability manager, Eskom, member of the South African delegation to the climate change negotiations
- Karl Yang, executive director, Korea Sustainability Investigating Fourm (KoSIF) and vice-chair of Carbon Disclosure Project (Korea)
- Nick Robins, head of climate change centre of excellence, HSBC, and co-chair of the UNEP FI Climate Change Working Group

THE LEGACY OF THE KYOTO PROTOCOL

> The lack of any follow-up that would start to encourage developing countries to change the management and trajectory of their emissions was a real failure.
>
> DAVID HONE

1997's Kyoto Protocol was the first international binding agreement on emissions reductions, although its scope extended to developed countries alone. Although President Clinton signed on behalf of the US, the Senate refused to ratify the treaty, precluding further US involvement. This, and other ratification problems, meant that it took seven years for the Protocol to come into effect.

Nonetheless, for some of the experts on the ACCA panel, the Protocol was still groundbreaking. 'The Kyoto process showed that climate change was a global issue', says Dixson-Declève of the Corporate Leaders Group on Climate Change (CLG); 'Without Kyoto, many countries would not have started to think about the implications and importance of climate change.'

Karl Yang, executive director of the Korean Sustainability Investing Forum agrees: 'The fact that an agreement was reached with respect to emissions reductions targets, even if it was limited to Annex 1 countries [those defined at the time as economically developed], was a big success.'

Meanwhile, for David Hone at Shell, the greatest success of Kyoto was the importance it attached to market-based solutions. Hone makes a valid point: the introduction of the market meant that attention began to be paid to finding an objective approach to measuring, monitoring, reporting and verifying GHG emissions.

Kyoto enabled the recognition that a set of technical issues needed to be addressed in order to challenge climate change. Methods had to be established to measure, monitor, report on and verify GHG emissions at national and sub-national levels, and to review all possible policies in this context. This included initiatives such as the use of market-based measures with the potential to motivate private capital and result in emissions reductions at the least overall cost to society.

Despite its successes Kyoto had some key shortcomings, noted by the panel of experts. Questions about technical complexity were raised, while Kyoto's actual impact on GHG emissions was also queried; the absence of US participation was another commonly cited failure.

For Mandy Rambharos, a member of South Africa's negotiating team, Kyoto failed in not establishing effective standards of comparability between different countries.

Finally, while several of the experts concurred that the exclusion of developing economies from the Protocol's obligations was appropriate for the time, the failure to address developing economies' future obligations has become one of Kyoto's major deficiencies. Some developing economies are major polluters, yet Kyoto failed to establish any sort of process for eventually committing them to binding targets. The resulting stand-off between developed and developing economies has been a running sore in negotiations ever since.

Kyoto, then, was a breakthrough, but one that was not future-proof.

THE EXPECTATIONS FOR COP 17

We don't know what will be achieved in Durban but we know what we want – governments need to create a very strong, international political framework on emissions related to climate change.

JOE GRIFFIN

Expectations for Durban are generally not high, with those involved already beginning to talk about what might be possible at COP 18 in South Korea. Even with little hope for a comprehensive agreement in Durban, some tangible steps could be taken to develop some of the mechanisms for dealing with climate change. As Karmali remarks, 'It is more a question of setting the bar low and hoping there can be significant progress on a few of the critical pieces'.

For Dixson-Declève, Durban is about building on previous meetings while developing new elements. 'We're not going to have a comprehensive emissions trading system up by next year', she comments, 'but we could get consensus on issues such as the REDD+ agreements,[2] fund agreements, and data sharing in areas such as meteorology'.

The experts' impression was that a binding agreement on emissions is definitely not likely.

Such an incremental approach is disappointing for those in the business world. Businesses 'need certainty regarding the kind of regime that will be in place [post-2012], the type of regulations that will affect them, and regarding timing, so they can actually deliver on the demands placed on them,' says PwC's Alan McGill.

Joe Griffin at Vodafone adds: 'We don't know what will be achieved in Durban but we know what we want: governments need to create a very strong, international political framework on emissions related to climate change'.

The experts wanted to see a bridging of the gap between developed and developing economies, and commitment from big emitters such as the US and China. 'I hope a legally binding agreement can be reached in Durban that will help shorten the distance between developed and developing countries and include countries such as China,' says Yeon-Soo Kim of Hyundai Engineering & Construction. Dixson-Declève thought that China might follow up its domestic 5-year and 10-year plans on climate change and take the initiative in Durban.

While any action agreed in Durban will probably be minor, Karmali struck a more positive tone about what could be achieved: 'It is possible to maintain significant components of the Kyoto architecture – such as the technical protocols, the accounting systems, the market-based instruments, and the focus on adaptation – while moving away from those elements that have proven to be more contentious, such as determining which countries bear the burden of emissions reduction. It is important to recognise that Kyoto is a framework that has the potential to extend to the future if the parties choose to maintain some or all of it'.

2. Reducing Emissions from Deforestation and Forest Degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development. 'REDD+' goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks. http://www.un-redd.org

'PLEDGE AND REVIEW' – AN ALTERNATIVE TO KYOTO?

If it's entirely voluntary, I don't think it will work.

KARL YANG, KOSIF

In the absence of a multilateral global agreement, some countries and regions are setting their own targets and committing to periodic review. The development of this approach has divided the experts.

Rambharos' view is that: 'Pledge and Review is useful in showing what countries can and cannot do, but since it's not legally binding, I don't think it will fly. I don't see developing countries accepting it because without a legally binding commitment it is just a paper exercise.'

South Korea's Carbon Disclosure Project vice-chair Karl Yang questions the scope for scrutinising voluntary domestic efforts: 'If a country exaggerates its emissions reductions, they can meet their commitment without any effort, but who will guarantee that these reductions are real?'

David Hone is more sanguine: 'Pledge and review is where we've always been, even under Kyoto. It has been implemented with a stronger, compliance-based structure, but even this is not entirely effective'. He pointed out that Canada, for example, is a Kyoto signatory but is well off-target. Moreover, says Hone, 'Pledge and Review' can help build confidence: 'Nations now need to make pledges and show they can be implemented without bringing an economy to its knees. This will build trust and will allow the process to be repeated, but with more tenacity and more aggressive targets'.

There is early evidence that this is already happening. South Africa, for example, has very ambitious targets and has demonstrated some progressive thinking around the management of emissions in what is largely a coal-based economy. South Korea too – not classified as a developed economy under Kyoto – has introduced ambitious, voluntary targets.

And there are other reasons to be positive. China's most recent five-year plan shows a discernible shift towards clean energy, and a focus on new measures such as cap and trade. India has launched a national solar energy plan, Mexico is making advances in residential and commercial energy efficiency, and Brazil has set up its national Amazon fund to focus on deforestation. These are just some of the many good examples from around the world, but in the light of their development, the question then becomes: 'Do we have the means to hold these countries to account?'

Karl Yang's question of scrutiny still remains. Internationally accepted monitoring, reporting and verification (MRV) practices are not always include in 'Pledge and Review' commitments, and many of the experts whom ACCA consulted advocated keeping the MRV elements of Kyoto, whether or not the Protocol is extended.

In the absence of any international agreement, 'Pledge and Review' may be the best that can be done at present, and may even help build the necessary confidence and trust required for a more comprehensive agreement in the future. Even so, Karmali sounds a warning note. The risk of this uncoordinated approach, he said, is that the work done by individual countries working alone may not be enough to head off irreversible climate change.

FINANCING MECHANISMS AND THE ROLE OF PRIVATE ENTERPRISE AND FINANCE

Finance, the design of market-based mechanisms, the transfer of technology or intellectual property – these are areas where business can play a constructive role in providing examples of what works well and what doesn't.

ABYD KARMALI

Regardless of whatever post-2012 framework may be established, attention must be paid to how the fight against climate change is financed, and the extent to which private enterprise can contribute to international efforts.

Financing mechanisms that have been launched at previous COPs, such as the GCF, which is designed to support climate change mitigation programmes in developing economies, were welcomed by the experts.

Nonetheless, a number of concerns were raised. Owing to the financial crisis, some experts feared developed economies would not be able to make good their generous financial pledges. 'A major challenge for the GCF is the current economic recession', says Yang, noting that the GCF is projected to be increased from the fast-start finance of $30 billion (issued between 2010 and 2012) to $100 billion a year by 2020. 'I worry that the promises made by the advanced economy countries may fail to materialise', he comments, adding: 'If they cannot find the financial resources then it will not succeed'. Others doubted the institutional arrangements for the fund, particularly the speed with which it could be started and its current leadership: they noted that the fund is being developed by political appointees. 'It would be more useful to involve technical people: to give accountants, project managers, and business people each a seat at the table', suggests Mandy Rambharos.

One point repeatedly made by the experts was that private sector financing has to be part of any funding mix, yet there is currently no representation from private finance on the GCF. Similarly with REDD+, Karmali notes: 'Right now there is no role for the private sector in REDD+. Yes, it's great that a mechanism was agreed in Cancun but it's not helpful that the role of the private sector is not yet agreed.'

Facilitating the use of private finance is absolutely crucial, the experts argue. David Hone points out: 'The amount of money in the GCF [pledged by governments] – even if it reached the $100 billion a year it aspires to by 2020 – isn't even remotely enough, given the scale of the big energy projects that are needed over the next 40 years'.

The experts also expressed concern that without certainty on climate change policy, existing financing mechanisms funded by private finance could wither. The proposed carbon market in South Korea has already been delayed from 2013 to 2015 for this reason.

On the other hand, the experts were generally encouraged by the private sector's approach to tackling climate change. Some figures may be alarming – 63% of businesses do not monitor their energy consumption while 81% do not monitor their carbon footprint – but the experts believed private enterprise to be capable of filling the leadership vacuum currently left by governments.

Businesses are beginning to recognise that using sustainable supply chains or increasing their energy efficiency will, in the long run, save money and give an edge over companies that carry on with 'business as usual'.

Abyd Karmali notes: 'Business has the potential to lead and to focus this leadership on delivering green solutions, whether greener technologies or innovative financial mechanisms to promote clean technologies'.

Mandy Rambharos adds: 'I think business will carry on as before: undertaking a wide range of activities even though there is no global deal in place. I don't think business is recognised for its contribution towards the mitigation of climate change, which has become a business imperative as well as a risk-management issue. Business should continue to work in this way but also should have a greater voice in the negotiations, as it seems wrong that businesses attend COP 17 yet just have a side event'.

Governments cannot fight climate change alone; they will need input from business and from private finance. To fulfil the potential of the private sector in combating climate change, business needs to articulate how it sees the development of the green economy.

Business needs policymakers, for their part, to provide certainty on both the direction of climate change policy and the speed of change it requires. Businesses need to know when particular policies will be effected and, as more and more companies operate on a global scale, they will need clear rules that apply across borders for international trade.

Many major business organisations are already demonstrating how private finance – in the form of their own investments – can be translated into real and effective projects. These efforts need to be part of an international programme if they are to make real and lasting global impact. The will is there, as is the money, but the lack of effective policy is a significant hurdle, making business nervous of investing in those riskier, less-certain regions and projects that may be the most important in meeting long-term mitigation goals.

The green economy has become the focus for many policymakers in recent years and will be a major topic addressed in the UN conference on sustainable development, or Rio+ 20, in 2012. Leading businesses are fully aware of the green economy, which has provided the broad context for their understanding of climate change since the publication of the *Stern Review on the Economics of Climate Change* in 2006. Owing to the significance of the review's findings, it is worth remembering some of the key conclusions (see right).

The Corporate Leaders Network for Climate Change is just one of many business organisations that have made the green economy part of their agenda. As it points out: 'Over the past decade, many countries have seen the emergence of groups of business leaders working to create the political space for government action in support of low carbon societies. These groups have seen the need for coordination across the economy, both to ensure that potential risks are managed and to allow business to grasp the opportunities that this transition could hold'.

Leading businesses want to help the world meet the CO_2 challenge but they need the mechanisms to allow this to happen, expressed in a clear policy and economic framework. As Dixon-Declève of CLG puts it: 'what most policymakers don't realise is that they [businesses] are the new innovators – they are looking at new innovation and a total paradigm shift – and part of the problem we have is that the policymakers are caught up in today's world. But the fact of the matter is that many of these companies are already looking towards tomorrow'.

KEY CONCLUSIONS OF THE STERN REVIEW (2006)

- The impacts of climate change are not evenly distributed – the poorest countries and people will suffer earliest and most.
- An effective response to climate change will depend on creating the conditions for international collective action.
- Climate change threatens the basic elements of life for people around the world – access to water, food production, health, and use of land and the environment.
- Emissions have been, and continue to be, driven by economic growth; yet stabilisation of GHG concentration in the atmosphere is feasible and consistent with continued growth.
- Central estimates of the annual costs of achieving stabilisation at between 500 and 550 parts per million of CO_2 equivalent (ppm CO_2e) are around 1% of global GDP, if strong action is begun now. It would already be very difficult and costly to aim to stabilise at 450 ppm CO_2e. If there is any delay, the opportunity to stabilise at 500–550ppm CO_2e may slip away.
- The transition to a low-carbon economy will bring challenges for competitiveness but also opportunities for growth. Policies to support the development of a range of low-carbon and high-efficiency technologies are required urgently.
- Establishing a carbon price, through tax, trading or regulation, is an essential foundation for climate change policy. Creating a broadly similar carbon price around the world and using carbon finance to accelerate action in developing countries are urgent priorities for international cooperation.

A ROLE FOR ACCOUNTANTS

> Accountants need to be at the forefront of understanding the implications of climate change and its role vis-à-vis business success.
>
> ALAN MCGILL

One of the concrete achievements of the UNFCCC process has been to establish certain requirements and mechanisms for the measurement, reporting and verification (MRV) of different parties' actions. One of the aims of COP 17 is to extend these mechanisms explicitly to climate finance and national-level mitigation activities. This is particularly important given the spread of national 'Pledge and Review' activities in the absence of an international agreement.

As mentioned earlier, external scrutiny of national 'Pledge and Review' programmes is a sensitive subject, but without comparability, mitigation efforts lack credibility. Unfortunately, as PwC's Alan McGill points out, 'We need a consistent measurement basis when accounting for emissions, and we don't have that at present'. Nonetheless, the experts whom ACCA consulted are optimistic that compromises can be found and existing tools improved upon.

It is important that these compromises are found: effective measurement reporting and verification are each crucial for effective action on climate change. They are also three disciplines that the experts agreed fall squarely within the remit of accountants.

Dixson-Declève explains: 'Donor countries will not provide funding [to mechanisms such as the GCF] without the assurance of transparent and accurate reporting. It's not just about financial accounting, but also accounting for the effectiveness of the projects themselves. In this regard, it is not so different from other accounting approaches which establish value-for-money or which audit performance. At the end of the day, it's all about results'.

Nick Robins at HSBC comments that: 'Accountants will play a much bigger role in the future, but already they are now auditing and assuring broad climate performance of companies and evaluating the ways in which companies are addressing the various risks and opportunities that fall out of climate change'.

Karmali also expresses confidence that 'accounting principles have been adapted to reflect the issue of climate change,' in the case of MRV systems. He, like others, suggests that there may be a global skills shortage of accountants with the right climate change MRV capabilities.

Alan McGill takes the strongest position on this issue. 'Clearly the accountancy profession must raise its game,' he says. 'Accountants need to understand that climate change information is going to become critical to an organisation going forward, and accountants need to be at the forefront of understanding the implications of climate change and its role vis-à-vis business success. I don't think the profession is doing enough to help its members understand and recognise this need, or to train new accountants in the skills that will be required'.

The profession must expand its role, applying old and new skills to fresh challenges. As Alan McGill argues: 'Accountants are currently primarily responsible for the gathering and assessing of an organisation's financial information, but this will change to a broader role. Accountants will have to turn into chief information officers: collecting both financial and non-financial information and assessing not only if the organisation can deliver financial returns but whether those financial returns are sustainable and can be repeated year after year'.

Criticism does not, however, mean that accountants have made few contributions so far; far from it. There is evidence that accountants are already being called upon by their businesses or clients to prepare business cases for climate change investments or to monitor climate change compliance requirements.

KEY POINTS

- Businesses, as a stakeholders in the green economy, have a pivotal role to play in policy formulation. They need to speak up to ensure their experiences, innovations, and concerns feed into the policymaking process.
- Policymakers need to ensure that private finance and business initiatives become part of a co-ordinated international programme of action if gains in international climate change negotiations are not to be squandered and real and lasting impacts made. Private and international efforts cannot sit in silos.
- Policymakers need to provide more certainty to business on both the direction and speed of travel of climate change policy formulation.
- Policymakers need to implement legally binding targets for GHG emissions reduction. To be able to set such targets, an effective system needs to be established for the measurement, reporting, and validation of efforts to reduce GHG emissions.

The challenge for the accounting profession

It is predicted that by 2030 the world will need to produce around 50% more food and energy, together with 30% more fresh water, whilst mitigating and adapting to climate change. This threatens to create a 'perfect storm' of global events.

SIR JOHN BEDDINGTON, UK GOVERNMENT CHIEF SCIENTIFIC ADVISER

The green economy, the market context for addressing climate change, is based on a much broader understanding of value than that defined by money. It requires an understanding of, and accounting for, the range of capitals needed to create and sustain value. These include natural, social, intellectual, manufactured and human capitals – not just financial capital.

A vital step towards a green economy has to be legally binding emissions targets. As mentioned earlier, a significant barrier to the achievement of binding targets is the absence of a strong MRV system for tracking emissions and holding parties to account for their actions and commitments. Without such a system, negotiations lack transparency and trust, which slows progress when rapid action is required. The accountancy profession has a vast amount of experience in providing assurance over information, so has a key role to play in building trust and thus allowing negotiations to progress.

To become the profession that enables the credible information flows that will allow the green economy to function and that will facilitate the mobilisation of private capital, the accounting profession must evolve. It must participate in the development of new knowledge and mechanisms that will allow such information flows; it must reshape its educational curricula and skills requirements to provide the necessary confidence and trust in the capabilities and integrity of the profession; and its leadership, through example, must create a culture of adaptation, resilience and innovation.

According to Rachel Jackson, head of sustainability at ACCA, accountants can play a variety of roles in relation to climate change, both at the macro and micro levels.

Accountants have some of the necessary skills already, but new skills need to be acquired if they are to be involved in all areas. These include the development of effective MRV systems, activities such as carbon inventories, tracking climate change performance measures, integration of financial and climate change information systems, and carbon accounting and budgeting (especially in areas with emissions trading schemes or carbon taxes).

In addition, there is already evidence that accountants are being called upon to prepare business cases for climate change investments and monitor compliance with climate change policies and regulations.

The accountancy profession has shown in the past that it can be flexible, adapting to emerging issues. It is arguable that the globalisation of business is the greatest change to take place in the past 50 years, driven largely by developments such as ever-improving information technologies. In the face of such dynamic and widespread change, the profession has worked hard to develop standards that are fit for purpose. Climate change is arguably the greatest challenge faced by humankind today, so the accountancy profession needs to remain flexible and use its experience and skills to assist in the shift to a green economy.

Climate change, with its existing links to financial accounting and markets, provides the perfect starting point to catalyse this evolution. It should not stop with climate change, just as our response to climate change should not stop with the international, intergovernmental negotiations.

KEY POINTS

- The accountancy profession needs to be pro-active in shaping the formulation of climate change mitigation policies. Using its extensive experience of measuring, reporting, and validation mechanisms, the profession needs to make sure its expertise makes a positive contribution to the formulation of credible policy frameworks and agreements.
- The accountancy profession must continually expand its knowledge base and develop new mechanisms to underpin the reporting of credible emissions and climate change mitigation information.
- The accountancy profession needs to reshape its educational curriculum and skills requirements to provide the necessary confidence and trust in the capabilities and integrity of the profession to help mitigate climate change.

Conclusion

The chance that any individual COP will make huge changes is, for the time being, gone. The much-hyped COP 15 in Copenhagen was never going to produce the next Kyoto, and even the Kyoto Protocol itself has not been an unmitigated success. Political differences, international and domestic, still preclude any wide-reaching, truly international, binding agreement on emissions reductions – and they will do so for some time yet.

Nevertheless, no COP is a waste of time. Expectations have lowered since 2009, but only to reasonable levels. It takes time to build the trust, develop the compromises, and create the confidence needed for a global agreement, and each COP makes its own contribution to this process.

It is to this process that accountants must contribute.

Businesses and individual nations or regions are beginning to make their own progress towards a sustainable world. Nonetheless, uncoordinated efforts by individual countries run the risk of being insufficient to prevent irreversible climate change. Without comparability and without effective oversight, incentives are stunted and investment limited. Separate initiatives will always come to less than the sum of their parts.

Accountants can be the force that binds these separate initiatives together, bridging gaps, building trust, turning single efforts into a united whole.

With measurement, reporting, validity and trust, there is a chance of one day achieving the global, binding emissions reduction agreement that the fight against climate change so badly needs.

KEY POINTS IN THIS PAPER

Skills
The accountancy profession must use its technical skills and strategic understanding to help clarify goals and actions when it comes to climate change policy formulation and implementation. The accountancy profession has the skill-set to provide mechanisms to effectively monitor and review policy outcomes and performance.

Leadership
The accountancy profession needs to be pro-active in shaping the formulation of climate change mitigation policies. Using its extensive experience of measuring, reporting, and validation mechanisms, the profession needs to make sure its expertise makes a positive contribution to the formulation of credible policy frameworks and agreements.

Renewal
The accountancy profession must continually expand its knowledge base and develop new mechanisms to underpin the reporting of credible emissions and climate change mitigation information.

Education
The accountancy profession needs to reshape its educational curriculum and skills requirements to provide the necessary confidence and trust in the capabilities and integrity of the profession to help mitigate climate change.

Collaboration
Business, as a stakeholder in the green economy, has a pivotal role to play in policy formulation. They need to speak up to ensure their experiences, innovations, and concerns feed into the policymaking process.

Inclusivity
Policymakers need to ensure that private finance and business initiatives become part of a co-ordinated international programme of action if gains in international climate change negotiations are not to be squandered and real and lasting impacts made. Private and international efforts cannot sit in silos.

Certainty
Policymakers need to provide more certainty to business on both the direction and speed of travel of climate change policy formulation.

Agreement
Policymakers need to implement legally binding targets for GHG emissions reduction. To be able to set such targets, an effective system needs to be established for the measurement, reporting, and validation of efforts to reduce GHG emissions.

Afterword

By Ian Ball, chief executive officer, International Federation of Accountants (IFAC)

Given the broad consensus that climate change is indeed taking place, the question becomes: 'What could and what should the global accountancy profession do?'

In developing the global accountancy profession, it is essential to examine the future roles of professional accountants through the lens of organisational sustainability, and determining what actions are required to deliver economic, environmental, and social performance for the long-term. This publication increases awareness of the need for professional accountants to engage their organisations in driving sustainable value creation, and for IFAC and its members to facilitate the development of required professional skills, competencies, and versatility among accountants.

This publication also highlights the key policy challenges that face us all in trying to deal with climate change, and in providing a global solution to a global problem. The global accountancy profession needs to play its part in facilitating the development of an effective and internationally harmonised approach to climate change-related reporting, and standardisation of climate change information, desirably as part of the development of the integrated reporting framework being undertaken by the International Integrated Reporting Committee.

Decision-useful climate change information is needed by various stakeholders, including governments, standards and policy setters, regulators, and investors. Climate change information is also needed by organisations themselves to form the basis of their strategies and activities to mitigate climate risks, take advantage of opportunities, and adapt to climate change. Such information cannot be properly understood without reliable measurement and transparency, as well as harmonisation and convergence of standards.

Harmonisation and convergence are no easy task, as we have experienced with the evolution of financial reporting standards over many years. However, there are reasons to be positive about the direction in which we are heading in developing climate change policy, information, and disclosure.

This publication reinforces the crucial role of monitoring, reporting, and verification practices to track emissions and hold parties accountable for their actions and commitments. Enforcement of emission reduction programmes need to be underpinned by record keeping, reporting, verification, and remedial actions where performance is below expectations. These are all activities in which accountants need to be involved.

More broadly, the Greenhouse Gas Accounting Protocol, developed by the World Business Council for Sustainable Development and the World Resources Institute, provides an organisational standard for emissions accounting. The Climate Disclosure Standards Board was formed to support, harmonise, and strengthen climate change-related reporting initiatives and standards already in existence, by sharing and improving best practices through the use of a single consistent framework for disclosure in mainstream reports. Launched in September 2010, the Climate Change Reporting Framework Edition 1.0 emphasises the importance of reporting information in such a way as to explain the links between the organisation's strategy, operations, and climate change impacts. The proposed integrated reporting framework encourages these links to be highlighted in an integrated report.

Despite these various developments, continued challenges exist for developing policy, improving transparency and disclosure, and, ultimately, for ensuring that organisations and investors make decisions that contribute to delivering sustainable development and societal well-being. Globally, it is important to address the following issues:

- Establishing binding targets to reduce GHG emissions, whether by extending the Kyoto Protocol or by negotiating new global agreements. The failure to negotiate internationally binding agreements on policies to reduce GHG emissions makes the role of business and markets in achieving reductions increasingly important.

- Bringing together the common elements of a patchwork of global, regional, and sectoral standards and frameworks to support convergence so that stakeholders can consistently interpret information across borders. Assurance standards will also be needed to facilitate and enhance credibility (an area in which the International Auditing and Assurance Standards Board is making progress).

- Shifting the focus of organisations and financial markets from the short-term to one that enables sustainable value creation. The challenge is that many sustainable development issues, most notably climate change, have intergenerational consequences. However, few organisations make decisions in the context of the intergenerational impacts of their actions. Part of the international response has to be the creation of incentives to ensure market actors are encouraged to take a longer-term perspective. For example, current price mechanisms frequently do not encourage organisations to manage the use of assets in a way that recognises that current consumption irreversibly affects what is available to future generations.

The global accountancy profession needs to continue employing its expertise in the development and implementation of climate change related policy and targets, and the frameworks, standards, and guidelines that can help improve climate change information. These efforts require multi-disciplinary cooperation to solve complex and cross-specialist challenges, and therefore will involve accountants working effectively with others including engineers, information technology experts, investors, scientists, and policymakers.

IFAC welcomes this publication by ACCA. It will help raise awareness of the need for the accountancy profession and its members to play a direct role in managing and mitigating climate change. It is an important step in recognising how the global profession needs to help deliver sustainable organisational success.

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