

Submission

to the

Ministry for the Environment
and Ministry for Business,
Innovation and Employment

on the

Discussion document:
Climate-related financial
disclosures

13 December 2019

About NZBA

1. The New Zealand Bankers' Association (NZBA) is the voice of the banking industry. We and work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following seventeen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - China Construction Bank
 - Citibank N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank N.A.
 - Kiwibank Limited
 - MUFG Bank Ltd
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Introduction

3. NZBA welcomes the opportunity to provide feedback to the Ministry for the Environment and Ministry for Business, Innovation and Employment on the Discussion document: *Climate-related financial disclosures (Discussion Document)*. NZBA commends the work that has gone into developing the Discussion Document.

Contact details

4. If you would like to discuss any aspect of this submission, please contact:

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Summary

5. NZBA supports the Productivity Commission’s recommendation that the Government endorse and adopt the recommendations of Taskforce on Climate-related Financial disclosures (**TCFD**) and implement a mandatory (comply-or-explain) principles-based disclosure system.
6. We believe that the TCFD reporting framework is appropriate for New Zealand as it is widely accepted as global best practice. In order to remain attractive for international investors, New Zealand needs to demonstrate a commitment to transparency and disclosure in relation to climate change. Climate-related disclosure is an example of that and the introduction of legislation will help to maintain and enhance New Zealand’s reputation.
7. Our responses to the questions in the Discussion Document are set out below. We would be happy to discuss this submission or provide further information if required.

Chapter 1	
Question	NZBA comments
Q1: Is the TCFD reporting framework the most appropriate framework for New Zealand?	<p>NZBA agrees that the TCFD reporting framework is appropriate for New Zealand.</p> <p>TCFD is a widely accepted framework and sets the global standard for climate-related disclosures.</p> <p>It reflects the key aspects of well-established risk management frameworks, while at the same time providing sufficient flexibility to reflect local conditions and allow for varying degrees of maturity.</p> <p>We believe it is critical that any mandatory framework adopted in New Zealand should be one that has global currency. Among New Zealand entities that are currently assessing and disclosing climate-related risk, TCFD is the most commonly used framework. We believe it is sufficiently holistic and comprehensive to allow for high quality reporting and disclosure.</p> <p>The use of another framework would lead to misalignment with international practice which poses a risk for New Zealand (eg in relation to trade).</p>
Q2: Do you agree with the conclusions we have drawn at the end of chapter 1?	<p>Yes. We would also add that addressing climate-related risks will result in organisations enhancing climate-related capability and governance.</p>

Chapter 2	
Question	NZBA comments
Q3: Do you agree with the objective as set out at page 22 of the Discussion Document?	NZBA agrees with the government's objective.
Q4: Should other objectives also be considered?	<p>The objective could be strengthened by including the provision of tools, guidance and data where possible to support reporting entities.</p> <p>Also, recognition of the positive effects for organisations including promoting long-term, strategic thinking over short-term financial return in respect of climate change, and impetus for climate-related risk mitigation.</p>
Q5: Do you agree with the problem definition? Are there other aspects we should consider?	<p>NZBA agrees with the problem definition, which is consistent with the findings of the Sustainable Finance Forum (Aotearoa Circle) in its Interim Report. That report highlighted New Zealand's ongoing dependence on international investment. In order to remain attractive for international investors, New Zealand needs to demonstrate a commitment to transparency and disclosure in relation to climate change. Climate-related disclosure is an example of that and the introduction of legislation will help to maintain and enhance New Zealand's reputation.</p> <p>An additional aspect to consider is that impacted sectors may not yet be climate risk literate and may not have capability or ready access to reliable data to enable the analysis and provision of consistent, comparable climate-related reporting.</p>
Chapter 3	
Question	NZBA comments
Q6: What are the implications of section 211 of the Companies Act 1993 for the disclosure of material climate-related information in annual reports?	<p>If section 211 of the Companies Act is to be the mechanism for requiring the disclosure, we consider that a specific subclause should be added.</p> <p>NZBA generally considers that it should not be possible to opt-out of the reporting of such information in annual reports, unless it is provided elsewhere (eg Disclosure Statements).</p>
Q7: What are the implications of the NZX Listing Rules for the disclosure of material climate-related	Reporting in alignment with TCFD would appear to meet Recommendation 4.3 of the NZX Code, as it relates to climate risk, metrics and targets.

information by (a) equity issuers, and (b) debt issuers?	
Q8: How should proposed adaptation reporting under the Climate Change Response (Zero Carbon) Amendment Bill and the climate-related financial reporting disclosures proposed in this discussion document best work together?	The requirements under those regimes should align as closely as possible to limit duplicative reporting and the compliance costs associated with that.
Chapter 4	
Question	NZBA comments
Q9: Do directors' legal obligations in New Zealand result in consideration, identification, management and disclosure of climate-related risks?	<p>NZBA believes that directors' legal obligations in New Zealand result in consideration, identification, management and disclosure of climate-related risks.</p> <p>Directors of New Zealand companies are generally permitted, and will in many contexts be required, to take climate change into account when making business decisions. The requirement stems principally from the directors' duty to act with reasonable care.</p> <p>Where the company has public disclosure obligations, directors also need to ensure they are disclosing material financial risk due to climate change, in the same way as they would disclose other material business risks.</p>
Q10: Do you agree with the legal opinion prepared for the Aotearoa Circle?	NZBA agrees that the Chapman Tripp opinion accurately portrays the relevant legal framework.
Chapter 5	
Question	NZBA comments
Q11: Do you favour the status quo or new mandatory disclosures?	<p>NZBA favours the adoption of new mandatory disclosures. We support the TCFD framework as best practice for climate-related financial disclosures, and (as outlined above) note its wide support and uptake internationally.</p> <p>While it can be argued that the existing law creates a disclosure obligation for climate-related risks, a positive obligation to make a disclosure would result in a single,</p>

	<p>consistent, high-quality climate reporting framework and will accelerate progress.</p> <p>The status quo has not prompted widespread disclosure at sufficient pace or level to provide confidence that climate-related risks and opportunities are being integrated into businesses decision-making.</p>
<p>Q12: If a mandatory approach is adopted, do you agree with the Productivity Commission that a mandatory (comply-or-explain) principles-based disclosure system should be adopted?</p>	<p>NZBA supports a mandatory (comply-or-explain) principles-based disclosure system. We believe that there may remain a range of valid reasons for companies not to adopt TCFD. The approach has the advantage of requiring organisations to assess this issue and any potential risks, and the “explain” aspect promotes transparency and ensures that any position taken is subject to scrutiny.</p>
<p>Q13: If the status quo is retained, how can government and investors be confident that risks would be routinely considered in business and investment decisions?</p>	<p>In our view, the status quo effectively relies on voluntary adoption or the risk of litigation, which is insufficient. Neither of these factors suitably promote consistency or best practice across organisations.</p>
<p>Q14: Do you consider the TCFD framework to be best practice in relation to climate-related financial disclosures?</p>	<p>Yes. The flexible nature of the TCFD framework allows for best practice to be defined in the context of different organisations and accommodates technological progress (eg better climate data, improved modelling capability, etc).</p>
<p>Q15: What are your views about whether the TCFD’s recommended disclosures will provide useful information to institutional investors and other users?</p>	<p>The four categories within the TCFD framework – governance, risk management, strategy and metrics – are a useful basis to capture all pertinent information to inform investors, consumers, government and other stakeholders.</p> <p>We expect that, initially, TCFD disclosures will be primarily assessed by their comprehensiveness and maturity, providing a de-facto indicator of strength of governance and management capability for institutional investors and other users, such as lenders.</p> <p>In addition, organisations that have undertaken an assessment of their own exposure to climate risk will be in a position to better evaluate and use other parties’ disclosure. These elements by themselves, albeit not explicitly an objective of the legislation, are useful. As disclosures mature and become more comparable and quantitative, users’ focus will shift on the financial risks disclosed and how these are being managed, which is the primary objective of TCFD recommendations.</p>

	<p>We note that some organisations within New Zealand that already disclose in line with the TCFD framework, do so at a trans-Tasman or international level. This factor needs to be taken into account as it may not always provide sufficient distinct local information to meet the needs of New Zealand stakeholders.</p>
<p>Q16: Do you think the proposed disclosure system will encourage disclosing entities to make better business decisions?</p>	<p>We consider that a thorough understanding of climate-related risk and opportunity, enabled by mandatory disclosure, will lead to strategic decisions that both reduce risk and maximise opportunities, leading to better business outcomes.</p> <p>TCFD encourages the holistic assessment of a fairly complex set of risks. Undertaking this process will require an organisation to assess its risks and enhance governance in relation to climate risks, which will ultimately improve decision-making. More to the point of the regime, the disclosure system will effectively ensure that all organisations make a conscious effort to consider and assess their exposure to climate risk. This is particularly important for those organisations that are yet to assess climate change and the associated risks. We would expect that the benefits to the organisation will be proportionate to the degree of focus applied (ie the more a company puts into TCFD, the more it gets out of it).</p>
<p>Q17: Is the definition of materiality in the IASB Conceptual Framework for Financial Reporting appropriate for this purpose?</p>	<p>We think that the definition is sufficient and universally applicable and, by virtue of being familiar to most users, it would aid the wider adoption of TCFD.</p> <p>However, we are also conscious that the IASB requires subjective judgement on the motivations of the primary user, ie “could it reasonably be expected to influence the decisions that the primary users”. As it also refers to “financial” information it implicitly excludes what many reporting entities would still regard as “non-financial” information and as such could be misunderstood. We therefore suggest that the definition should be supplemented with the materiality guidance of the TCFD.</p>
<p>Q18: What comments do you have on our proposal that non-disclosure would only be allowable on the basis of the entity’s analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why?</p>	<p>NZBA supports the proposal that non-disclosure could be allowable on the basis that a company can substantiate the assertion that it is not materially affected by climate change. It has the effect of requiring each organisation to consider the implications of climate change on its business and the disclosure of any rationale for non-disclosure ensures that the decision is subject to public scrutiny. It also enables companies that demonstrably are not exposed to avoid compliance cost.</p> <p>However, we note that it is likely to be rare that an entity of scale is not exposed to some degree of climate-related risk, even if limited to potential business continuity impact through</p>

	<p>supply chain or physical risk to assets. We would suggest that the basis for non-disclosure should be revisited and reaffirmed at regular intervals.</p>
<p>Q19: What are your views about providing a transition period where incomplete disclosures would be permissible?</p>	<p>NZBA supports a transition period where incomplete disclosures would be permissible.</p> <p>We note that significant investigation and analysis may be necessary for some entities in scope of the disclosure requirements, and that it is preferable to ensure high-quality robust disclosures that take all material data into account. We note that some elements of disclosure (for example, operational emissions and reduction targets) may be possible to comply with immediately or very soon, whereas other aspects (such as transition risk across a complex investment portfolio or supply chain) will take longer to analyse and report.</p> <p>We also note Bank of England Governor Mark Carney's comments at a Tokyo conference held by the Taskforce on Climate-related Financial Disclosures in October 2019: "TCFD needs to reach a definitive view of what counts as a high-quality disclosure before they become mandatory".</p> <p>We see benefit in giving organisations the opportunity to road test how the impact of climate change is documented across their business before full disclosure becomes mandatory. This would allow those in scope of the regulation to balance the urgency of the task and the imperative of getting it right.</p> <p>The Government could consider a staggered approach to mandatory TCFD disclosure, or requiring entities to publish a roadmap setting out a phased timeframe for full compliance.</p>
<p>Q20: If there is to be a transition period, what are your views on it being for one financial year?</p>	<p>In relation to transition period, some of our members are of the view that a transition period is not necessary, while others would welcome a 2-3 year transition period. That would allow for the ability to test how they understand and document climate change impact before disclosure becomes mandatory.</p> <p>Additionally, we note and endorse the Sustainable Finance Forum's view on the availability and quality of climate risk data in New Zealand. We believe that over the next few years there will be significant improvement in the robustness and quality of available environmental and social data – resulting in improved comparability and usefulness of climate risk reporting through standards and verification (as well as disclosure).</p>
<p>Q21: Should all of the following classes of entity be subject to mandatory (comply-or-</p>	<p>Yes, with the exception of asset managers.</p> <p>Asset managers often act on direct instructions of their customers and may not always be in a position to provide an accurate reflection of climate risk in respect of the assets</p>

<p>explain) climate-related financial disclosures: listed issuers, registered banks, licensed insurers, asset owners and asset managers?</p>	<p>under management given the nature of the underlying investments and limited availability of data. Unlike investors, asset managers manage funds on behalf of third parties and, as such, are not directly exposed climate risks associated with the assets invested in.</p> <p>In the case of consolidated groups that contain multiple entities that would otherwise be required to report individually, our preference would be that there is an ability to provide one consolidated report.</p>
<p>Q22: Should any other classes of entity be required to disclose?</p>	<p>Any emissions-intensive industry faces climate-related risks (mostly transition risks) which, in the most extreme cases, may threaten the ability of an industry or organisation to operate. This arises from any inability (or unwillingness) to reduce emissions (in line with legislation or public pressure) or failure to compete with more climate-friendly alternatives.</p> <p>Real estate developers, brokers and property management firms, especially in locations susceptible to climate change, should be required to disclose.</p>
<p>Q23: Should there be an exemption for smaller entities?</p>	<p>Yes, we agree.</p>
<p>Q24: If there were to be an exemption:</p>	<p>(a) What criterion or criteria should be used: annual revenue, total assets, a combination of the two, or some other measure or measures?</p> <p>Possibly a combination of both – either/or.</p> <p>(b) Which dollar amount or amounts would be appropriate?</p> <p>The firm size limits should be aligned to limits in other regulations where possible.</p> <p>(c) Should there be a requirement to adjust for inflation from time-to-time?</p> <p>We do not have a strong view on this.</p>
<p>Q25: What are your views about our proposal to have a stand-alone climate-related financial disclosure report within the entity's annual report?</p>	<p>We agree with the proposal for a stand-alone report within the entity's annual report to enable easy access to information. We acknowledge that, in some instances, this may result in TCFD information being repeated within the mainstream financial reports, eg where climate-related risks give rise to future loss provisions.</p> <p>Allowing the incorporation of climate-risk related information into financial reports may lead to relevant information being disguised amongst other financial information. However, as the system matures and market participants become more</p>

	accustomed to climate-related risk information, stand-alone reports may no longer be required.
Q26: What are your views about providing for disclosing entities to include cross-references or mappings within that report to assist users to find relevant information?	We consider that cross-referencing should be permitted if the climate-related financial disclosures are a stand-alone report within the entity's annual report.
Q27: What are your views about requiring explanations for non-compliance to be included in the annual report?	Any instances of non-compliance should be outlined and explained in the annual report, as should the explanation and supporting rationale for non-disclosure ('comply or explain'). That would promote transparency.
Q28: Should there be mandatory assurance in relation to climate-related financial disclosures?	Some members think assurance should be voluntary, others consider that financial information disclosed should be subject to independent assurance. If assurance is to be mandatory, a longer transition period – for example, 5 years – would assist. This would also need to take account of the fact that entities may rely on climate changes models provided by third parties such as local authorities.
Q29: Which classes of information should be subject to assurance if it were to be mandatory?	Metrics and targets, which are quantitative in nature, could be subject to assurance. Plans to reduce emissions or mitigate climate risks could also be subject to assurance.
Q30: Do you consider that assurance should be required in relation to GHG emissions disclosures?	Yes. This area has matured over time and key aspects, such as emissions factors, are provided by independent sources. Notwithstanding that, we still observe capability gaps and capacity constraints across assurance providers as outlined in the paper. We agree that these need addressing. A transition period may be appropriate and should be discussed with the assurance industry in more detail. However, we are concerned that not imposing any assurance obligations will not provide the incentives for assurance providers to develop capacity and capability on climate-related disclosure. Ultimately, independent assurance should be provided where climate risks present material financial risks. In that respect an emissions threshold of, for example, 100,000 tonnes of Scope 1 emissions could be appropriate.

<p>Q31: Is limited assurance the only practicable approach in relation to TCFD disclosures, or is reasonable assurance also feasible?</p>	<p>At the outset limited assurance is more feasible but over time we expect reasonable assurance to be applied, in particular relating to financial risks.</p>
<p>Q32: If we do not introduce mandatory assurance when a disclosure system comes into effect, should it be reconsidered in the future?</p>	<p>The introduction of a mandatory assurance regime should be provided for from the outset but a reasonable transition period should be included to allow for capability and capacity development. This would provide clear incentives for the industry to create capacity and capability.</p>
<p>Q33: What comments do you have on the proposal to bring the disclosure system into effect for financial years commencing six months on or after the date that the regulation is introduced?</p>	<p>While some aspects of the legislation (eg assurance) might need longer to build capacity and capability within the industry, the key elements of the framework should be relatively straight-forward to implement.</p>
<p>Q34: Do you consider that smaller entities should be provided with a longer transition if there were to be no exemption for them? If so, how long should that additional period be?</p>	<p>Smaller entities may need more time to build knowledge and technical expertise. The transition period could depend on the industry.</p>
<p>Q35: Do you have any views about the legislative means for implementing new mandatory (comply-or-explain) disclosure requirements?</p>	<p>No comment.</p>
<p>Q36: Do you consider that there is a role for government in relation to guidance, education, monitoring and reporting?</p>	<p>We believe the Government has a valuable role to play in providing a national view on sustainability standards across a range of sectors; as well as providing a national view of hazards and risks posed by climate change, and the provision of quality economic, environmental and social data that can support scenario modelling and analysis.</p> <p>We support the Sustainable Finance Forum's view that developing a credible and objective sustainability 'language'</p>

	<p>fit for New Zealand, which links to international standards, is necessary to facilitate the effective and genuine flow of capital to positive outcomes.</p> <p>We believe there is also a role for Government in the provision of national risk and climate hazard data that is reliable and can be used in risk management by entities in scope for mandatory reporting. The Government could provide climate forecasts for entities (particularly smaller entities) to use, rather than carrying out their own modelling.</p> <p>However, the guidance should not be drafted in a way to result in a material departure from TCFD, in particular, in relation to its flexibility of application across different industries and types of organisations.</p>
Q37: Are there other activities that a government agency could usefully carry out?	<p>One of the key roles for government would be in the provision of research and reliable data that organisations could use as inputs into scenario analysis. The recent PCE report highlights significant gaps and systemic underfunding in environmental data. Addressing these issues should be a priority for government and Crown Research Institutes.</p> <p>The Prudential Regulatory Authority in the UK is working with financial institutions in drafting handbooks for smaller entities. These handbooks include Scenario Analysis, Innovation, Disclosure and Risk Management.</p>
Q38: Which government agency or agencies will be best able to carry out these functions?	<p>The breadth of work would necessitate involvement across a range of agencies, but we consider that the recently-created Climate Change Commission has a strong mandate to lead New Zealand’s low carbon transition as well as our national approach to adaptation.</p>
Q39: What would you need to assist you with a full set of TCFD disclosures?	<p>Robust and high quality data on physical impacts of climate change (eg flood risk, cyclones) that can be used to form the basis for scenario analysis. Government could instruct Crown Research Institutes to work with industry groups to define specific data needs.</p>
Q40: What information do you have about the cost implications relating to these proposals?	<p>We anticipate that additional resources will be required to implement TCFD and to assess relevant climate risks (eg transition risks).</p> <p>We acknowledge that additional costs may arise from the “explorative” nature of the implementation, the lack of available benchmarks and best-practice examples as well as the need to source customised data. While the cost attributable to climate risk assessment and TCFD implementation may appear significant initially, we believe that such work is necessary and valuable in order to understand an organisation’s risk profile.</p>

<p>Q41: What information do you have about costs for specific types of reporting entities?</p>	<p>We have not investigated costs for other entities.</p>
<p>Q42: Do you have any other comments?</p>	<p>We note RBNZ’s view that: “These (climate) risks must be appropriately identified and priced, so as to best ensure a stable transition over coming years.” The impact of this on vulnerable communities in New Zealand may be disproportionate if not implemented in a considered way.</p> <p>Important considerations include; a common language, metrics, taxonomy, minimal content requirements, increased uniformity of disclosure sources, and levelling the playing field for firms that opt to move first.</p>