MfE & MBIE, 2019

Climate-related financial disclosures

UNDERSTANDING YOUR BUSINESS RISKS AND OPPORTUNITIES RELATED TO CLIMATE CHANGE

Discussion document

Ministry for the Environment
Manatū Mō Te Taiao

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

New Zealand Government

Disclaimer

The opinions contained in this document are for consultation purposes only and do not reflect official Government policy. Readers are advised to seek specific legal advice from a qualified professional person before undertaking any action in reliance on the contents of this publication. The contents of this discussion paper must not be construed as legal advice. The Ministry for the Environment and the Ministry of Business, Innovation and Employment do not accept any responsibility or liability whatsoever whether in contract, tort, equity or otherwise for any action taken as a result of reading, or reliance placed on the Ministries because of having read, any part, or all, of the information in this document.

This document may be cited as: Ministry for the Environment & Ministry of Business, Innovation & Employment. 2019. *Climate-related financial disclosures – Understanding your business risks and opportunities related to climate change: Discussion document.* Wellington: Ministry for the Environment.

Published in October 2019 by the
Ministry for the Environment
Manatū Mō Te Taiao
PO Box 10362, Wellington 6143, New Zealand

ISBN: 978-1-98-857956-6 (online)

Publication number: ME 1473

This document is available on the Ministry for the Environment website: www.mfe.govt.nz.

Ministry for the Environment
Manatū Mō Te Taiao

Making Aotearoa New Zealand the most liveable place in the world

Contents

Tables

Figures

Foreword

The Government is committed to acting on climate change. We want to build a more sustainable economy that is better for the environment, creates jobs and improves New Zealanders' lives.

We also want to show global leadership by demonstrating to other countries that New Zealanders can be better off while taking action to reduce our impact on the climate. We have a responsibility to provide a stable climate for future generations.

In its report *Low-emissions Economy* (August 2018), the Productivity Commission recommended the introduction of a mandatory (comply-or-explain) climate-related financial disclosure system. This recommendation was underpinned by two ideas. First, disclosures are a powerful mechanism to focus reporting entities on the impacts of climate change on their own activities. Second, disclosure enables investors to make decisions that accurately reflect the climate risk of those choices.

Some New Zealand companies have taken the lead by disclosing climate change information. However, a report published by the McGuinness Institute indicates that the great majority of large companies do not provide any information, disclose only small amounts of information or are reporting in an ad hoc way.

This situation needs to change. It is clear that climate change factors can pose serious risks for companies and investors. Climate-related issues must be tackled at the board level by directors who are committed to understanding the relationship between climate change and their companies' long-term success, including how they will:

- manage risks
- identify and seize climate-related business opportunities
- disclose reliable information about the risks and opportunities to investors.

This discussion document is intended to provide financial institutions and entities participating in financial markets with certainty on future direction of travel on this issue.

It asks four key questions: What are the arguments for retaining the status quo, versus introducing new mandatory disclosures? What should be disclosed? Which entities should be disclosing? When should they start disclosing?

We are keen to know your views on these and other issues before taking proposals to Cabinet. We encourage you to make submissions.

Hon Kris Faafoi
Minister of Commerce and Consumer Affairs

Hon James Shaw
Minister for Climate Change

The purpose of this discussion document

In 2017, the Minister for Climate Change Issues, Minister of Finance, and Minister of Economic Development requested the Productivity Commission "identify options for how New Zealand could reduce its greenhouse gas emissions through a transition towards a lower emissions future, while at the same time continuing to grow incomes and wellbeing". In 2018, the incoming Minister for Climate Change signalled a more ambitious agenda and asked the Commission to include the target of achieving net-zero emissions by 2050 in its analysis.

The Productivity Commission released its final report in August 2018. The report included a recommendation that "the Government should implement mandatory (on a comply-or-explain basis), principles-based, climate-related financial disclosures by way of a standard under section 17(2)(iii) of the Financial Reporting Act 2013. These disclosures should be audited and accessible to the general public".

The Government is seeking feedback on proposals for how we would give effect to this recommendation; this discussion document outlines those proposals. We (the Government) are also using the document to stimulate discussion and action on climate-related financial disclosures. In order to inform the discussions:

- **chapter 1** outlines why there is an international drive for financial market participants and financial institutions to make climate-related financial disclosures
- **chapter 2** outlines our views about the objectives and problem definition
- **chapter 3** discusses existing climate-related reporting obligations in New Zealand
- **chapter 4** discusses the links between fiduciary duties and climate change
- **chapter 5** provides a fuller discussion of our proposals
- **appendices A – G** provide further background information
- **a glossary** provides definition of terms used in the document.

Timeframes and next steps

This consultation ends at 5pm on Friday, 13 December 2019.

Process following consultation

The feedback from this consultation will inform the Government's final decisions about the proposed regime on climate-related financial disclosures. After the consultation period has ended:

- Ministry for the Environment and Ministry of Business, Innovation and Employment officials will prepare a report that summarises the submissions and recommends changes in response
- Ministry for the Environment and Ministry of Business, Innovation and Employment officials will then seek agreement from Cabinet to make the recommended changes.

If Ministerial and Cabinet approval is given, officials will begin the process of introducing new regulation.

Executive summary

The Intergovernmental Panel on Climate Change (IPCC) has stated that achieving the Paris Agreement goal of limiting global temperature increases to 1.5 °C will involve a wide portfolio of mitigation options, including **disinvestment** in high greenhouse gas (GHG)-emitting products, processes and activities, and increased **investment** in new technologies, energy efficiency and clean energy sources.[1]

This discussion document is premised on the idea that financial markets worldwide, including New Zealand, will make a significant contribution towards achieving these investment outcomes. However, this can only be achieved if financial market participants identify, understand, assess, manage and routinely disclose all material information about the impacts that climate change is having and will have on their businesses.[2] Impacts on businesses can include physical changes arising from climate change, such as greater coastal flooding, and transition risks and opportunities that arise, such as stranded fossil fuel assets, new technology innovation and government policy changes.

Governments and financial markets around the world are developing ways to address this issue. New Zealand is now considering how to ensure the market has the information it needs, in a form that is useful for investors, creditors, insurers and other users of annual reports, to allocate investments in a way that contributes to a low-emissions, climate-resilient economy.

The Productivity Commission's report

In its *Low-emissions Economy* report, the Productivity Commission recommended that the Government endorse the recommendations of the Taskforce on Climate-related Financial Disclosures as one avenue for disclosure (R7.3) and implement a mandatory (comply-or-explain) principles-based disclosure system (R7.4).[3] The Government's response to the Productivity Commission's report, the Climate Action Plan, agrees with R7.3 and has agreed to investigate R7.4.[4]

Agreeing to investigate R7.4 does not mean the Government is questioning whether financial institutions and other entities that participate in New Zealand financial markets should be disclosing material climate-related financial information. Rather, it is about understanding how best to achieve this outcome.

The key issues and our proposals

Table 1 outlines the key issues and our proposals discussed in this document for a climate-related financial reporting regime. These points are investigated more thoroughly in chapter 5: Designing a comply-or-explain disclosure system for New Zealand. We would like to hear your feedback on these proposals.

1 IPCC, 2018.

2 TCFD, 2019.

3 Productivity Commission, 2018. pp 191–199.

4 New Zealand Government, 2019.

We are aware that practical application of the Task Force on Climate-related Financial Disclosures (TCFD) framework is still new. We do not expect that the information made available through disclosures will be consistent and comparable from day one. Rather, we view this as a dynamic process in which the overall quality will improve and disclosures will converge over time, through learning-by-doing. It is our view that the best way to accelerate this process is if all relevant entities start reporting as soon as is practicable.

Table 1: Proposals for a climate-related financial reporting regime

Issue	Proposals based on what we currently know and understand
Status quo versus new mandatory (comply-or-explain) reporting	The adoption of principles-based mandatory (comply-or-explain) climate-related financial disclosures (consistent with the Productivity Commission's recommendation (R7.4)).
Disclosures that would satisfy the comply element	The TCFD reporting framework would be the default 'comply'. 'Comply' would also be met by disclosing climate-related information under other reporting frameworks that are TCFD-aligned.
When it would be acceptable to explain	Not complying with the TCFD in full would be permissible, in year 1 only, subject to explaining why some disclosures have not been made, eg, because targets and metrics are still being developed. Thereafter, non-disclosure would only be allowable on the basis of a preparer's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why.
Who would it apply to	Consistent with the TCFD's recommendations, the disclosure system would apply to: listed issuers, banks, general insurers, asset owners and asset managers.
An exemption for smaller entities	We have not formed a view, to date, about whether smaller entities should be excluded from the comply-or-explain regime.
Exemption criteria	Annual revenue, total assets or a combination of the two could be used if there were to be an exemption for smaller entities.
Commencement and transition	Mandatory (comply-or-explain) regime would come into effect for financial years commencing on or after six months after the regulations are introduced.
The role of the government	There are important roles for the government in relation to guidance, education, monitoring and reporting. These activities might be carried out by Ministry for the Environment (MfE), Ministry of Business, Innovation and Employment (MBIE) or the Financial Markets Authority (FMA). The Climate Change Commission might have a role in relation to scenario analysis.
Implementation	Climate-related financial disclosures would be implemented by way of Order-in-Council on the recommendation of the responsible Minister.
Publication of climate-related reports	Climate-related financial information should be disclosed in annual reports in a level of detail appropriate to the needs of users of annual reports, and with the use of cross-references or mappings to assist users to locate further detailed information if needed.
Independent assurance	With the possible exception of greenhouse gas emissions disclosures, the Government should not consider imposing mandatory assurance obligations until (a) it becomes clearer what users may want from assurance engagements, and (b) standard setters have responded to user demand with new or amended standards and guidance material.

References

2018 Global investor statement to governments on climate change. 2018. Retrieved from www.theinvestoragenda.org/wp-content/uploads/2018/09/GISGCC-FINAL-for-GCAS-with-signatories.pdf (14 October 2019)

Accounting for Sustainability (A4S). *TCFD Statement of Support*. Retrieved from www.accountingforsustainability.org/en/activities/tcfd/statement-of-support.html (15 October 2019)

Alliance for Corporate Transparency, 2018 *Research Report: The state of corporate sustainability disclosure under the EU Non-Financial Reporting Directive.*

ASX Corporate Governance Council. 2019. *Corporate Governance Principles and Recommendations, 4th Edition.* Sydney: Australian Securities Exchange.

Australian Accounting Standards Board & Auditing and Assurance Standards Board. 2018. *Climate-related and other emerging risk disclosures: assessing financial statement materiality using AASB Practice Statement 2.*

Australian Securities & Investments Commission. 2019a. *RG 228 Prospectuses: Effective disclosure for retail investors.*

Australian Securities & Investments Commission. 2019b. *RG 247 Prospectuses: Effective disclosure in an operating and financial review.*

Baker McKenzie and PRI. 2017. *Climate Disclosure Country Reviews – Recommendations of the FSB Task Force on Climate-related Disclosures.*

Barker S. 2018. *Directors' Liability and Climate Risk: Australia – Country Paper. Commonwealth Climate and Law Initiative.*

Blasco JL. 2017. *Three quarters of companies worldwide yet to acknowledge climate change as a risk.* KPMG. Retrieved from www.tinyurl.com/y6l93lva (14 October 2019)

Carney M. 2019. *A Transition in Thinking and Action* – speech to the International Climate Risk Conference for Supervisors, Amsterdam. Bank of England.

Ceres. 2018. *Disclose what matters: Bridging the gap between investor needs and company disclosures on sustainability.*

CDP. 2017. *CDP Climate Change Report 2017 – United Kingdom Edition.*

Chapman Tripp. 2019. *Building resilience to climate change: Climate change putting heat on directors.* Retrieved from www.chapmantripp.com/publications/building-resilience-to-climate-change-climate-change-putting-heat-on-directors (14 October 2019)

Chartered Accountants Australia and New Zealand. 2013. *Audit Committee series: The benefits of assuring greenhouse gas emissions.*

Christensen HB, et al. 2019. *Adoption of CSR and Sustainability Reporting Standards: Economic Analysis and Review.* National Bureau of Economic Research Working paper no. 26169.

Climate Leaders Coalition. 2019. *2019 Statement*. Retrieved from www.climateleaderscoalition.org.nz/about/2019-statement (14 October 2019)

Contact Energy. 2019. *Annual Report.*

Corporate Reporting Dialogue. 2018. *Better Alignment Project.* Retrieved from www.corporatereportingdialogue.com/wp-content/uploads/2018/11/Corporate-Reporting-Dialogue-Better-Alignment-Project.pdf (14 October 2019)

Corporate Reporting Dialogue. 2019. *Driving Alignment in Climate-related Reporting – Year One of the Better Alignment Project.*

de Cambourg P et al. 2019. *Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe*. Paris: Autorité des Normes Comptables.

Poole V. 2018. Dinner speech – Exeter College, Oxford. Deloitte. Retrieved from www.sbs.ox.ac.uk/sites/default/files/2019-01/debate_dinner_speech.pdf (15 October 2019)

Eccles RG, Krzus MP. 2018. Why companies should report financial risks from climate change, *MIT Sloan Management Review*, Spring 2018, Vol.59(3).

Environment and Climate Change Canada. 2019. *Final Report of the Expert Panel on Sustainable Finance – Mobilizing Finance for Sustainable Growth*. Gatineau: Environment and Climate Change Canada.

External Reporting Board. 2019. *New Zealand Equivalent to International Accounting Standard 1: Presentation of Financial Statements* (NZ IAS 1). London: International Financial Reporting Standards Foundation.

European Commission. 2019. *Communication from the commission - Guidelines on non-financial reporting: Supplement on reporting climate-related information*. Official Journal of the European Union, (2019/C 209/01).

EY Australia. 2017. *Are your climate disclosures revealing the true risks of your business?* Melbourne: EY.

Global Reporting Initiative. *About Sustainability Reporting*. Retrieved from www.globalreporting.org/information/sustainability-reporting/Pages/default.aspx (14 October 2019)

Financial Markets Authority. 2018. *Corporate governance in New Zealand: Principles and guidelines*.

Guthrie L. et al. 2012. *The case for consistency in corporate climate change-related financial reporting*. Climate Disclosure Standards Board.

Guthrie L. 2016. *Mapping the sustainability reporting landscape – Lost in the right direction*. London: Association of Chartered Certified Accountants.

High Level Expert Group on Sustainable Finance. 2018. *Financing a Sustainable European Economy, Final Report.* European Commission.

HM Government. 2019a. *Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance*.

HM Government. 2019b. *Green Finance Strategy: Transforming Finance for a Greener Future*.

Hoogervorst H. 2019. *Speech: IASB Chair on what sustainability reporting can and cannot achieve*. Climate-related Financial Reporting Conference, Cambridge University.

Hons Bennet P, Joyce S & Bridges S. 2017. Terms of Reference – New Zealand Productivity Commission Inquiry into the Opportunities and Challenges of a Transition to a Lower Net Emissions Economy for New Zealand. Retrieved from https://www.productivity.govt.nz/inquiries/lowemissions/ (14 October 2019)

Hutley N SC, Harford Davis S. 2016. *Climate Change and Directors' Duties – Memorandum of Opinion.* Melbourne: The Centre for Policy Development and the Future Business Council.

Hutley N SC, Harford Davis S. 2019. *Supplementary Memorandum of Opinion.* Melbourne: The Centre for Policy Development.

International Auditing and Assurance Standards Board (IAASB). 2018. *IAASB Project Proposal – Guidance on Key Challenges in Assurance Engagements Over Emerging Forms of External reporting ("EER")*. New York: IAFC.

Intergovernmental Panel on Climate Change (IPCC). 2018. *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty*.

International Integrated Reporting Council (IIRC). 2018. *Assurance report of the independent auditor*. Retrieved from tinyurl.com/y5z6o6xa (14 October 2019)

International Integrated Reporting Council (IIRC). 2019. IIRC Newsletter. Retrieved from tinyurl.com/y66hyjkw (14 October 2019)

Investor Group on Climate Change. 2017. *Transparency in Transition – A Guide to Investor Disclosure of Climate Change*.

Investor Group on Climate Change. 2018a. *Investing in Climate Solutions for New Zealand*.

Investor Group on Climate Change. 2018b. *Investing in Resilience: Tools and frameworks for managing physical climate risk*.

Investor Group on Climate Change. 2018c. *Annual Report*.

Kaye B. 2017. *Commonwealth Bank in new lawsuit over climate risks*. Reuters, 8 August.

Kerber R. 2017. *Vanguard seeks corporate disclosure on risks from climate change*. Reuters, 15 August.

KPMG International. 2017. *FSB Task Force on Climate-related Disclosures – KPMG client briefing*. Retrieved from www.assets.kpmg/content/dam/kpmg/xx/pdf/2017/01/fsb-task-force.pdf (14 October 2019)

KPMG International. 2018. *Identifying and reporting climate-related financial risk – How KPMG can help*. Retrieved from www.assets.kpmg/content/dam/kpmg/xx/pdf/2018/10/climate-risk-services.pdf (14 October 2019)

Lang K. 2019. *Change the Conversation: Redefining How Companies Engage Investors on Sustainability*, Ceres.

Law Commission. *Report No. 9: Company Law Reform and Restatement*. Retrieved from www.lawcom.govt.nz/our-projects/company-law (14 October 2019)

Leka L. 2017. *Could disclosing climate-related financial information become the new normal?* International Federation of Accountants. Retrieved from www.ifac.org/global-knowledge-gateway/business-reporting/discussion/could-disclosing-climate-related-financial (14 October 2019)

Lemmon S. 2019. *What do investors really want from climate change disclosures?* Retrieved from www.eco-act.com/2019/06/what-do-investors-really-want-from-climate-change-disclosures (14 October 2019)

Mackintosh I. 2019. *Why corporate reporting standards are starting to converge*. Quoted in EY Reporting. Retrieved from www.ey.com/en_gl/assurance/why-corporate-reporting-standards-are-starting-to-converge (14 October 2019)

Mercer Investments. 2018. *European Asset Allocation Survey 2018*.

Meridian. 2019. *Climate Risk Disclosures, Meridian Energy Limited, FY19*.

McGuinness W. et al. 2018. *Working Paper 2018/03 - Analysis of Climate Change Reporting in the Public and Private Sectors*. Wellington: McGuiness Institute.

Ministry of Economy, Trade and Industry of Japan. 2018. *Guidance on Climate-related Financial Disclosures – TCFD Guidance*.

Ministry for the Environment. 2019a. *Arotakenga Huringa Āhuarangi: A Framework for the National Climate Change Risk Assessment for Aotearoa New Zealand*. Wellington: Ministry for the Environment.

Ministry for the Environment. 2019b. *Transitioning to a low-emissions future: The Government response to the Productivity Commission's Low Emissions Economy report*. Wellington: Ministry for the Environment.

Nelson M. 2019. *How climate change disclosures reveal business risks and opportunities*. Retrieved from http://www.ey.com/en_gl/assurance/climate-change-disclosures-revealing-risks-opportunities (14 October 2019).

Network for Greening the Financial System (NGFS). 2019. *A call for action: Climate change as a source of financial risk*.

New Climate Economy. 2018. *Unlocking the Inclusive Growth Story of the 21st Century: Accelerating Climate Action in Urgent Times.*

New Zealand Government. 2019. *Transitioning to a low-emissions future – the Government response to the Productivity Commission's Low Emissions Economy report.*

New Zealand Parliament Environment Select Committee. 2019. *Final report (Climate Change Response (Zero Carbon) Amendment Bill) 136—2.*

New Zealand Productivity Commission. 2018. *Low-emissions Economy*. Wellington: Productivity Commission.

NZX. 2017. *NZX Corporate Governance Code.*

NZX. 2019a. *NZX Listing Rules.*

NZX. 2019b. *Guidance Note: NZX ESG Guidance.*

NZX. 2019bc. *Guidance Note: Continuous Disclosure.*

OECD and CDSB. 2015. *Climate Change Disclosure in G20 Countries: Stocktaking of corporate reporting schemes.*

Price J. 2018. *Keynote speech: Financing a Sustainable Economy*. Retrieved from www.asic.gov.au/about-asic/news-centre/speeches/climate-change/ (14 October 2019)

Principles for Responsible Investment (PRI). 2018. *PRI Reporting Framework 2019: Strategy and Governance.*

Principles for Responsible Investment (PRI). 2019. *TCFD-based reporting to become mandatory for PRI signatories in 2020*, press release. Retrieved from tinyurl.com/yxkpc3zn (14 October 2019)

PwC. 2018. *Reporting tips: Responding to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).* London: PwC. Retrieved from www.pwc.co.uk/sustainability-climate-change/assets/pdf/reporting-tips-climate-change.pdf (14 October 2019)

PwC Australia. 2019. *Straight Away Alert: Climate-related and other emerging risks.*

Reddell C. 2018. *Directors' Liability and Climate Risk: South Africa – Country Paper.* Commonwealth Climate and Law Initiative.

Reserve Bank of New Zealand. *Reserve Bank Climate Change Strategy*. Retrieved from www.rbnz.govt.nz/financial-stability/climate-change/strategy (14 October 2019)

Sanford. 2018. *Annual Report: The Elements.*

Sarra J, Williams C. 2018. *Directors' Liability and Climate Risk: Canada – Country Paper*. Commonwealth Climate and Law Initiative.

Senate Standing Committee on Economics. 2017. *Carbon risk: a burning issue*. Canberra: Commonwealth of Australia.

Stalker A, et al. 2017. *Concerns misplaced: Will compliance with the TCFD recommendations really expose companies and directors to liability risk?* Commonwealth Climate and Law Initiative.

Stalker A, Garton A. 2018. *Directors' Liability and Climate Risk: United Kingdom – Country Paper*. Commonwealth Climate and Law Initiative.

Sustainable Business Council. 2018. *Creating Sustainable Value From Good Governance.*

Task Force on Climate-Related Financial Disclosures (TCFD). 2017a. *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.*

Task Force on Climate-related Financial Disclosures (TCFD). 2017b. *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.*

Task Force on Climate-related Financial Disclosures (TCFD). 2017c. *Technical Supplement: The Use of Scenario Analysis on Disclosure of Climate-related Risks and Opportunities.*

Task Force on Climate-related Financial Disclosures (TCFD). 2018. *2018 Status Report – Task Force on Climate-related Financial Disclosures: Status Report.*

Task Force on Climate-related Financial Disclosures (TCFD). 2019. *2019 Status Report – Task Force on Climate-related Financial Disclosures: Status Report.*

The 2° Investing Initiative. 2015. *Decree Implementing Article 173-VI of the French Law for the Energy Transition – Challenges and first Recommendations.*

The Investor Agenda. 2019. *The Investor Agenda Progress Report.*

United Nations Environment Programme (UNEP). 2018. *The Emissions Gap Report 2018.* Nairobi: UNEP.

United Nations Environment Programme (UNEP) Finance Initiative. Retrieved from www.unepfi.org/climate-change/climate-change/ (6 October 2019).

Westpac NZ. 2018. *Climate Change Impact Report.*

Wood, C. Chairman of the Global Reporting Initiative's Board of Directors. *GRI Annual Report 2016-2017.*

Z Energy. 2019. *Annual Report.*