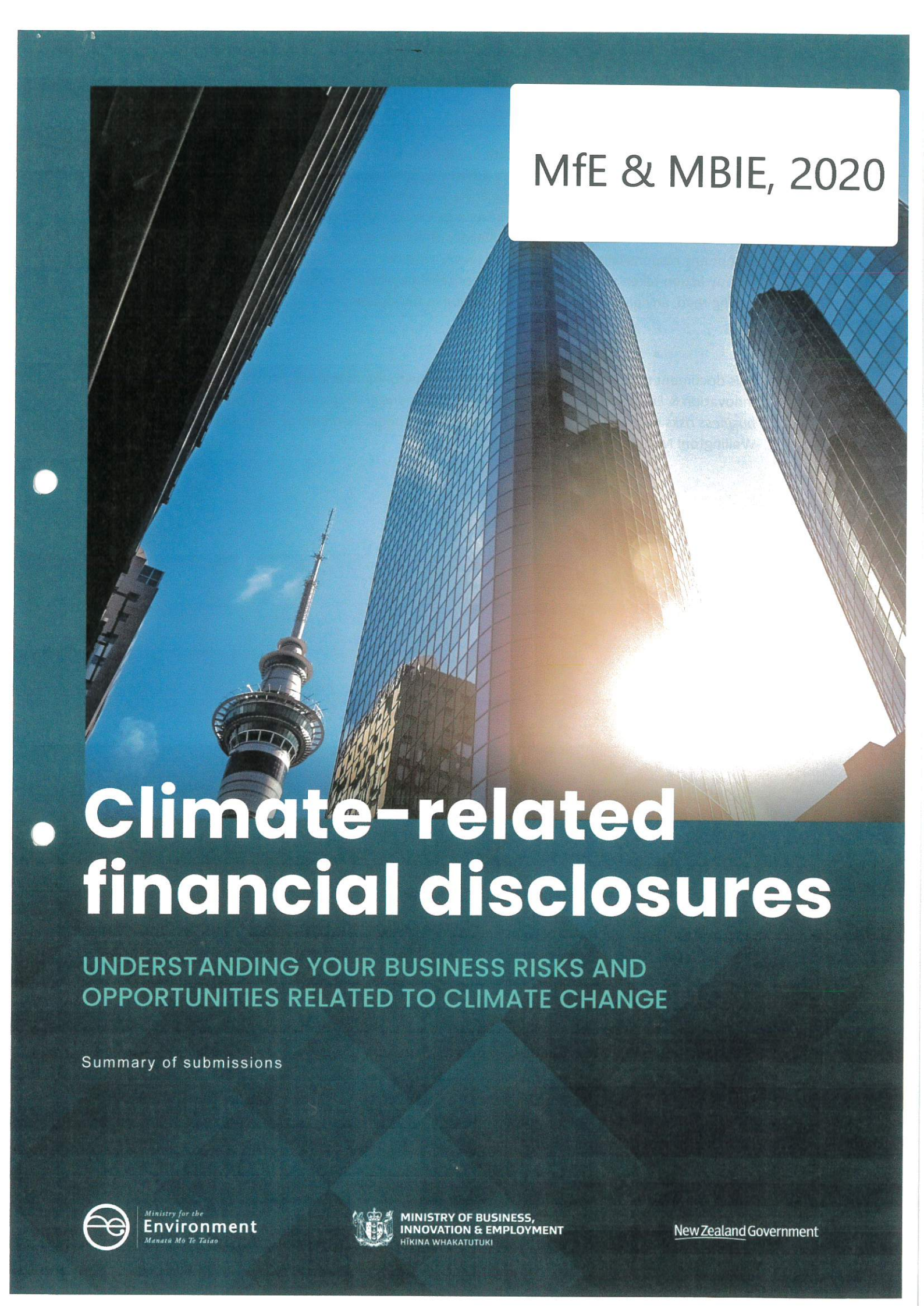




MfE & MBIE, 2020

Climate-related financial disclosures

UNDERSTANDING YOUR BUSINESS RISKS AND OPPORTUNITIES RELATED TO CLIMATE CHANGE

Summary of submissions



Ministry for the
Environment
Manatū Mo Te Taiao



MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

New Zealand Government

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Contents

Introduction	5
The purpose of the discussion document on climate-related financial disclosures	5
What we proposed	6
Submissions analysis and next steps	7
Consultation process	8
Consultation events	8
Who responded to the consultation?	9
What we heard	11
Chapter 1: The context	12
Chapter 2: Objective and problem definition	15
Chapter 3: Climate-related reporting obligations in New Zealand	18
Chapter 4: Directors' legal obligations and climate change	20
Chapter 5: Designing a comply-or-explain disclosure system for New Zealand	22
Conclusion	45
References	46

Tables

Table 1:	Proposals for a climate-related financial reporting regime	6
Table 2:	Submitters by type	9

Figures

Figure 1:	The Productivity Commission's recommendations	5
Figure 2:	Business/industry by type	10
Figure 3	Overall approach to the proposals	10
Figure 4:	The McGuinness Institute proposed approach for embedding TCFD into legislation	40

Introduction

The purpose of the discussion document on climate-related financial disclosures

In 2017, the Minister for Climate Change Issues, Minister of Finance, and Minister of Economic Development asked the Productivity Commission to “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 Productivity 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” – see figure 1.

Figure 1: The Productivity Commission’s recommendations

R7.3	The Government should endorse the recommendations of the Task Force on Climate-related Financial Disclosures as one avenue for the disclosure of climate risk.
R7.4	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.

Source: Productivity Commission, 2018.

The Productivity Commission provided the following rationale for R7.4:

Introducing mandatory climate-related financial disclosures would encourage investment that supports the transition to a low-emissions economy. These disclosures can help overcome information and inertia barriers that prevent entities from adequately addressing climate risk and capitalising on low-emissions opportunities. They can also help to stop investors valuing assets or investment opportunities incorrectly, resulting in misdirected finance or stranded assets.¹

The Government has agreed to R7.3 and agreed to investigate R7.4 as part of its Climate Action Plan. Agreeing to R7.3 signals the Government’s commitment to the idea that high quality, climate-related financial disclosures can make a significant contribution to transforming New Zealand to a low-emissions, climate-resilient economy.

¹ Productivity Commission, 2018. p 7.

Agreeing to investigate R7.4 will help New Zealand reach the point where high-quality, climate-related financial disclosures are routinely made, consistent with international best practice. This requires consideration of 'what' should be reported and 'who' should be reporting.

The discussion document, *Climate-related financial disclosures: understanding your business risks and opportunities*, outlined the Government's proposals for how to give effect to R7.4 and sought feedback on those proposals.

What we proposed

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 Task Force on Climate-related Financial Disclosures (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 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 the 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 help users 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.

Submissions analysis and next steps

This document summarises the feedback the Ministry of Business, Innovation and Employment and Ministry for the Environment received from the consultation phase on the proposals set out in the discussion document, *Climate-related financial disclosures: understanding your business risks and opportunities*, published on 31 October 2019.

We will use the submissions received during consultation as part of evidence to inform our advice on the proposals. Evidence gathered during consultation meetings will also inform advice. Advice will go to the Minister for Commerce and Consumer Affairs and the Minister for Climate Change with a view to developing a draft Bill.

Consultation process

We consulted on the proposals between 31 October and 13 December 2019. The [discussion document](#) presented the context and purpose of the proposals. In particular:

- the problem the proposals sought to resolve and the objective of the proposals
- background on current climate-related reporting obligations in New Zealand
- background on directors' legal obligations in relation to climate change, including trends in other jurisdictions
- the proposed design of a disclosure system for New Zealand, including:
 - which entities would be in scope
 - what and how they would be expected to report
 - when this would be introduced.

The consultation invited people to respond to 42 questions. The full list of questions is available on page 59 of the discussion document.

Consultation events

We held four public events in Auckland, Wellington and Christchurch in late November, as well as a public webinar in early December to make the information sessions widely accessible. We proactively invited stakeholders who would likely be impacted by the proposals to attend, to make it more likely relevant stakeholders would participate in the consultation.

The sessions were two hours long and co-hosted by Chartered Accountants Australia and New Zealand. We started each session by explaining the context of the proposals and giving a quick introduction to the disclosure framework proposed within the discussion document. This was followed by an industry panel session to provide a practitioner view of the value and challenges of climate-related financial reporting. Panellists included representatives from each of the 'Big 4' accounting firms; law firm Chapman Tripp; Westpac; Meridian Energy; and the Reserve Bank of New Zealand. Finally, we presented the proposals in greater depth and provided an open forum for questions and comments afterwards.

Total attendance across all five sessions was 151 people.

Who responded to the consultation?

We received a total of 77 submissions. No submissions were based on template submissions. All submissions have been analysed and given equal weight in the analysis presented below.

Submitter groups

Submissions to the consultation were divided into the groups identified in table 1 (in order from the highest to the lowest number of submissions received).

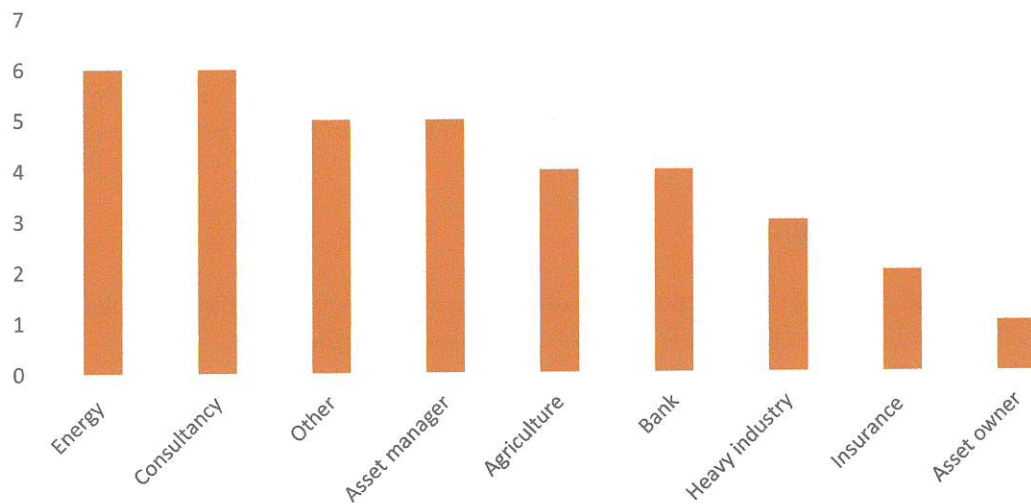
Table 2: Submitters by type

Submitter type	Number of submitters
Business / industry	36
Industry group	11
NGO	8
Professional body	6
Individual	4
Crown entity	3
Local government	2
Legal professional	2
Iwi / Māori	2
Academic / research community	1
Unspecified	2

Some of the 11 industry groups and six professional bodies' members also submitted individually as Business/industry submitters. For example, three banks were represented by the New Zealand Bankers' Association, but also chose to submit individual responses to clarify additional points. Those banks are also members of BusinessNZ which submitted, although the banks' individual views are not reflected in BusinessNZ's response.

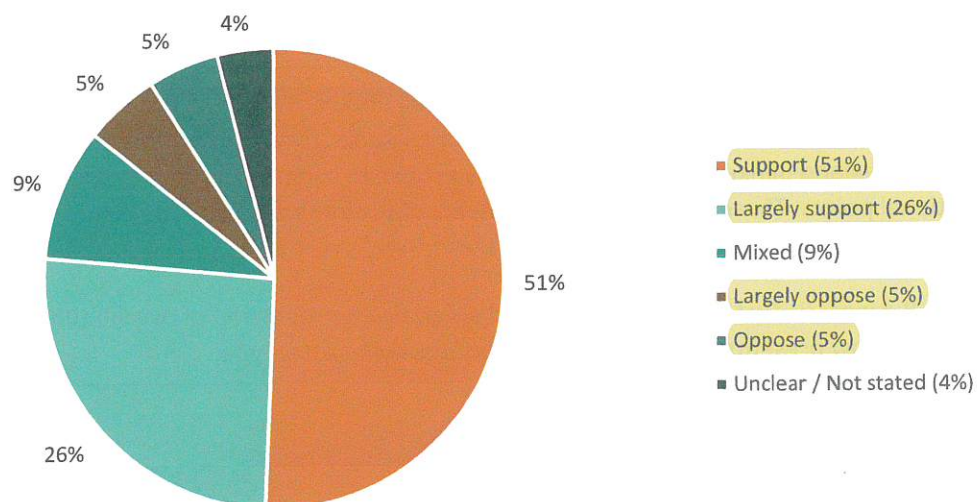
As the Business/industry group represented a significant proportion of overall submissions, figure 2 below presents a breakdown of responses by industry type.

Figure 2: Business/industry by type



Most submissions supported the proposals on the whole, with 77 per cent of respondents either supporting or largely supporting the proposals, while 9 per cent either opposed or largely opposed them (see figure 3).

Figure 3 Overall approach to the proposals



What we heard

Key findings

Most submissions favoured a new mandatory, principles-based (comply-or-explain) disclosure requirement, aligned with TCFD's recommendations which were viewed as international best practice.

While most submitters agreed the disclosure requirements should apply to banks, insurers, listed issuers, asset managers and asset owners (subject to a size threshold) as proposed in the discussion document, many submitters also expressed support for expanding the scope to other entities. This included large non-listed entities and companies in sectors highly at risk from the impacts of climate change.

There was strong consensus assurance of disclosed information is currently not practicable, and should be reviewed in future. The exception to this was greenhouse gas emission data, which respondents generally felt could, and should be, assured.

There were more diverse views on matters of design, such as how long a transition period should be and where the information should be disclosed.

- three years (2)
- three to five years (2)
- five years (1).

Three respondents reiterated there should be an exemption for smaller entities, therefore, no additional transition period was necessary. Conversely, three other respondents argued there should be no differentiation (including exemptions) for smaller entities.

Four respondents proposed smaller entities could be granted a less comprehensive disclosure requirement, thus removing the need for exemptions or a longer transition period.

Two respondents noted that, in any case, smaller entities would require greater awareness, education and clear frameworks. The regime could, therefore, encourage and enable voluntary reporting, reducing smaller entities' cost over time. Responsible Investment Association Australasia stated:

It may make sense to phase in the disclosure legislation so that larger companies, with better resources report early and report comprehensively, leading the way and providing examples for smaller companies. There is a circular challenge that this consideration provides due to the inability of larger companies, especially in the financial services sector, to adequately report until their smaller partners from within their supply chains, also do so.

Q.35 Do you have any views about the legislative means for implementing new mandatory (comply-or-explain) disclosure requirements?

We received 30 responses to this question, with no clear consensus or themes emerging. Five respondents felt existing regulations should be amended to avoid creating another form of reporting. Six others argued new regulations should be introduced to allow for greater flexibility, given the proposals are different in nature to the existing architecture for financial reporting.

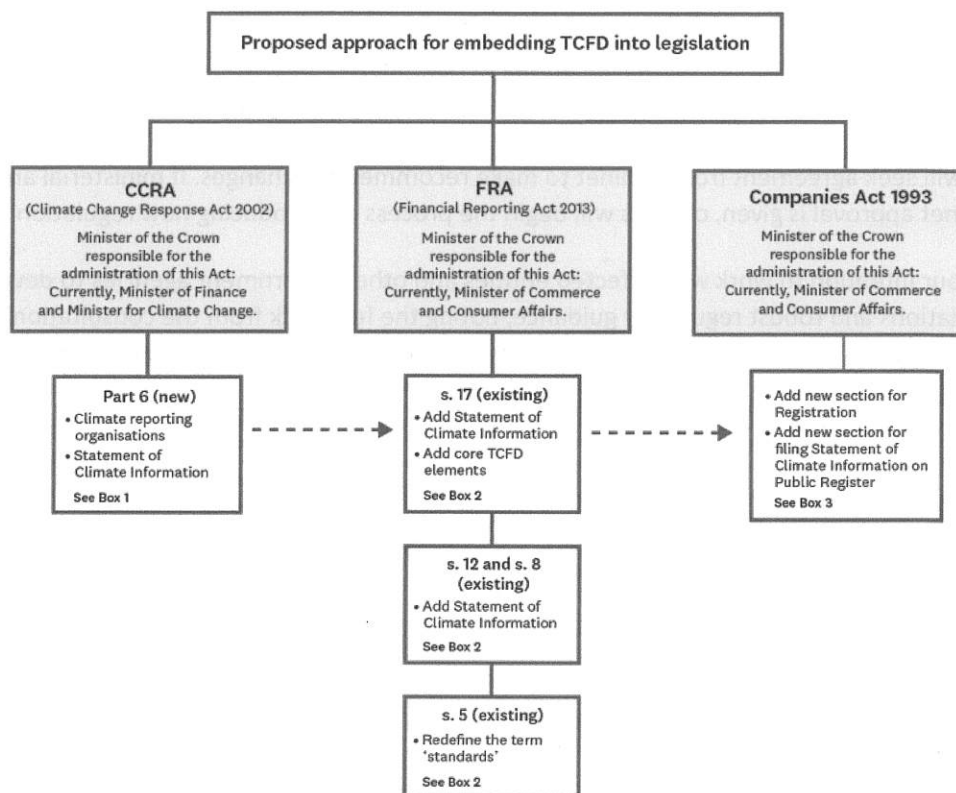
Respondents raised the following concerns. Any legislation must:

- have clear and precise requirements
- not conflict with existing reporting obligations
- provide appropriate liability
- avoid unintended consequences, for example creating investor pressure for smaller, non-mandated organisations within the supply chain
- allow a broader range of potential, additional ESG disclosures to be introduced at a later time.

As TCFD implementation remains at an early stage, regulation and standard setting should be separate. Several submissions stated the XRB should therefore play a role.

The McGuinness Institute proposed an alternative approach to embedding the TCFD in legislation (see figure 4). It argued this approach would provide regulators with the most cost-effective, durable and flexible framework in the short to medium term.

Figure 4: The McGuinness Institute proposed approach for embedding TCFD into legislation



Q.36 Do you consider that there is a role for government in relation to guidance, education, monitoring and reporting?

We received 54 responses to this question, with 89 per cent of respondents (48) considering there was a significant role for the Government in relation to guidance, education, monitoring and reporting. Four respondents felt there was a limited role for the Government, and one did not consider the Government best placed to provide such functions.

A recurring theme amongst respondents was the Government should focus on ensuring comparable and useful information. It could do so by developing consistent and clear tools to enable scenario analysis in a cost-effective manner that can be replicated across organisations (eg, an approved range of scenarios or standards for scenario analysis). Respondents also called for better, cost-effective access to New Zealand-specific data sets on a range of risks, as well as economic and social data.

For example, Air New Zealand stated the Government and industry should work closely together as we move toward implementation. Specifics of the requirements for implementation will arise from close collaboration with businesses and it may be that the Government has a role to play in facilitating sector-based guidance to encourage consistency in disclosures.

Beyond implementation tools, responses also called for greater guidance and clarity in understanding what was expected from organisations to be considered compliant. Several

Conclusion

We will use the submissions received during consultation to inform the Government's final decisions about the proposed regime on climate-related financial disclosures.

We will seek agreement from Cabinet to make recommended changes. If ministerial and Cabinet approval is given, officials will begin the process of introducing new regulation.

It is our intention to work with affected entities and other government agencies to develop regulations and robust regulatory guidance, noting the feedback from the consultation that this is a rapidly developing area which would benefit from ongoing stakeholder input.

Submissions can be found on the Ministry for the Environment's website.

References

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

The following information is provided for your reference:

1. The first section of the document contains a detailed description of the project objectives and goals.

2. The second section outlines the methodology used for data collection and analysis.

3. The third section presents the results of the study, including statistical data and charts.

4. The fourth section discusses the conclusions drawn from the findings and provides recommendations for future research.

5. The fifth section includes a list of references and sources used in the study.

