

26 July 2021

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Auckland, 2022

Tēnā koe Greg,

Climate change

As we enter the second half of 2021, the Institute has become increasingly aware of not just a change in direction, but a change in pace. There is no doubt that the impacts of climate change are accelerating. Global news is grim; heatwaves, droughts, wildfires, flash floods and hurricanes are increasingly being seen as the new normal. Also, climate change is not linear, but exponential. Climate change will impact every company, board member, employee, supplier, banker, insurer and consumer – exponentially.

There is an accepted narrative that climate change will deliver uncertainty, but the reverse is also true – there is a lot that is certain. For example, we know that the general trajectory and pace of change will continue to accelerate. We know that this change will deliver (at least in the short term) winners and losers. We also know that this will result in an increase in litigation, public protests and discourse over inequality. Together these will create constitutional stress, and, if not managed well, distrust of our leaders and the institutions they manage.

What is less certain is how climate change might impact our international relationships, public assets and business enterprises. In particular, what risks and shocks lie hidden in our infrastructural assets, our markets, our technical systems, our supply chains and our business models? We believe a few wild cards exist; for example, how will our government, suppliers, bankers, insurers and consumers behave and respond to the changes that lie ahead? While we have some degree of certainty over our trajectory and pace of change, we have little information on the probable and possible impacts. That is what we believe effective reporting against the *Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)* will deliver – more certainty and therefore a more durable, stable and responsive economy. We believe the next five years provide a critical window for organisations to get prepared for climate change, and to get the country prepared – both by adapting, and by reducing long-term impacts through reducing emissions. How companies, particularly large companies, prepare and share information will in turn contribute to a more stable and durable national economy and society.

To help you in this endeavour this letter includes two publications.

Working Paper 2021/06 – Reviewing TCFD information in 2017–2020 Annual Reports of NZSX-listed companies

Over the next few years we expect the XRB, NZX and FMA will produce guidance and research on the reporting and assurance of climate-related information. This working paper takes an early look at what is currently in the public arena. We would like to acknowledge and thank those companies that have become early adopters of TCFD-based reporting and for sharing their impacts and lessons learned. Mandatory reporting of TCFD-based standards is eminent under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill, and is likely to be operational in the year 2023 or 2024 (being within two years after Royal Assent).

We suggest you might like to forward this working paper to your chief financial officer, but before doing so we suggest you take 30 minutes to read the excerpts of annual reports found in Appendix 1, especially Air New Zealand's on pages 21 and 22. We emphasise that it is important that TCFD-based reporting is decision-useful; this means clear, concise and relevant data. Greenwashing is not acceptable in a world where timely and relevant information will be a critical tool in moving society beyond the era of climate change.

Discussion Paper 2021/01 – Mission Aotearoa

This paper explores how we might solve these large, messy and complex problems by co-creating a mission-based approach in response to a grand challenge. This discussion paper brings together the discussions from a webinar we hosted earlier this year. We believe this new way of thinking is the way to creating adaptable, purposeful and dynamic companies. We hope this paper might be of interest to you and your board. The Q&A section (pages 20-23) is designed to contribute to your understanding of the work of internationally recognised economist Mariana Mazzucato and her team at the Institute for Innovation and Public Purpose (IIPP), University College London. We hope it proves useful.

Recent developments

Lastly, as well as the new scaffolding that is being put in place in New Zealand under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill to mandate TCFD reporting, there is a range of international developments that are likely to shape reporting in the years to come. For example, the International Financial Reporting Standards Foundation (IFRS) is currently calling for invitations to comment on a paper titled *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* (due 29 July 2021). Also of note, finance ministers from the Group of Seven (G7) of the largest economies have endorsed the launch of the new Taskforce on Nature-related Financial Disclosures (TNFD). This means we are likely to see a natural extension of TCFD towards or including TNFD, since the two crises are interconnected.

The Institute is currently exploring whether the New Zealand government should create or endorse a specific set of New Zealand-based, climate-related reference scenarios to help shape public policy for central and local government and for businesses more generally (for example, to enable organisations to produce comparable data when reporting on their strategy in TCFD-based reports). We are not envisaging that the scenarios be mandatory, but we do think standards in the future will require organisations to specify what scenarios they are using. While many of the international scenarios are northern-hemisphere-based, a long, narrow and mountainous country close to Antarctica will be impacted differently than a much larger land mass closer to the equator. There is a lot of new scaffolding that must be put in place to help make New Zealand's transition fast, fair and effective; what we are suggesting is that a set of New Zealand-specific scenarios is the next piece of infrastructure New Zealand should be considering and publishing (i.e. who, what and when). If this is of interest, please let me know.

Thank you for your interest. If you have any questions, please do not hesitate to contact us. We wish you all the very best as you navigate the terrain that lies ahead.

Best wishes,



Wendy McGuinness
Chief Executive