

Learning lessons from early adopters of Aotearoa New Zealand Climate Standards (NZ CSs)

Summary of our Working Paper 2024/07: Collating Climate Statements contained in 2023 Annual Reports of NZSX-listed companies (initial results)

Wednesday 20 March 2024

Sustainable Business Council Climate-related Disclosure Support Group

Welcome

- Part 1: Quick overview of where we are
- Part 2: Working Paper 2024/07 – Initial results
- Part 3: What do the Climate Statements tell us about climate change through the lens of NZSX-listed companies?
- Part 4: Observations and recommendations

1: When does mandatory reporting start?



2: Against what standards?

NZ CS 1 Climate-related Disclosures:

Contains the climate-related disclosure requirements for each of the four thematic areas (Governance, Strategy, Risk Management and Metrics and Targets) and the assurance requirements for greenhouse gas emissions disclosures.

NZ CS 2 Adoption of Aotearoa New Zealand Climate Standards:

Provides optional adoption provisions.

NZ CS 3 General Requirements for Climate-related Disclosures:

Contains the principles, the underlying concepts such as materiality, and the general requirements.

3: Why report?

Purpose of NZ CS

Transparency, clarity, contingency, comprehensiveness.

- Encouraging entities **to identify and act** on the risks and opportunities resulting from climate change
- Enabling investors **to make informed decisions** by assessing what risks and opportunities entities are facing and how they are responding

4: Who reports?

Around 200 entities defined as Climate Reporting Entities (CREs):

- Large listed issuers with a market capitalisation exceeding \$60 million;
and
- Large financial entities, including banks, insurers and managers of investment schemes with total assets exceeding \$1 billion.

5: Where are we on the journey?

2017: TCFD Recommendations published

2019: IASB (Matt Chapman) say no to climate standards

2021: In October, NZ law is passed

Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

2021: In November, ISSB established

IFRS Foundation announced in November the formation of the International Sustainability Standards Board (ISSB) to create a global baseline, that in turn supports jurisdictional requirements.

2022: In December, XRB climate standards issued (New Zealand's jurisdictional requirements)

2023: In June, ISSB sustainability standards issued (the global baseline)

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S2 Climate-related Disclosures

2023: In October, TCFD disbanded

The Financial Stability Board (FSB) asked the IFRS Foundation to take over the monitoring of the progress of climate-related disclosures. 'Concurrent with the release of its 2023 status report on October 12, 2023, the TCFD has fulfilled its remit and disbanded.'



1. About

Purpose:

- To show how companies have applied NZ CSs before they become mandatory.
- To build knowledge about climate change through the lens of NZSX-listed companies.
- To contribute to research on how Aotearoa might better report and manage climate risk and maximise opportunities in the transition to a low carbon economy.

Dataset: 111 FY23 annual reports of NZSX-listed companies. The final working paper will be published later in 2024 (that will include the remaining 20).

Five categories of disclosure: full, partial, intent to publish, non-specific and no mention.

Note: This working paper includes the initial results from analysing 111 FY23 annual reports published on or before 21 November 2023. This means that 20 annual reports are outstanding. We will publish the final working paper once all 131 FY23 annual reports are available.

2. Categories of disclosure in more detail

Full disclosure against NZ CS

No mention of TCFD or NZ CS



1. **Full disclosure** – Explicit declaration of full compliance with NZ CS
2. **Partial disclosure** – Some but not all NZ CS requirements met, including disclosures that were fully compliant with TCFD and made some reference to NZ CS. Companies in this category often gave disclosures alongside an intent to publish ‘with full compliance’ in FY24
3. **Intent to publish** – Some companies clearly stated they would publish NZ CS-aligned disclosures in FY24; others expressed a clear intent to publish but without expressing when; others stated they would assess their degree of disclosure in future
4. **Non-specific** – Companies that referred to the standards implicitly (e.g. mentioning the mandatory climate-related disclosure regime or referring to the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 in isolation), and expressed no clear intent to publish (i.e. no intent or intent without a specific year)
5. **No mention** – No comment on NZ CS or TCFD

3. NZ CS Results in FY23

Types of NZ CS disclosures	Number of NZSX-listed companies	Percentage
1. Full disclosure	5	4.5%
2. Partial disclosure	26	23.4%
3. Intent to publish	34	30.6%
4. Non-specific	6	5.4%
5. No mention	40	36.1%
Total	111	100.0%

4. TCFD Results in FY23

Types of TCFD disclosures	Number of NZSX-listed companies	Percentage
1. Full disclosure	28	25.2%
2. Partial disclosure	2	1.8%
3. Intent to publish (or mentioned alongside intent to publish NZ CS)	11	9.9%
4. Non-specific	0	0.0%
5. No mention	70	63.1%
Total	111	100.0%

5. Strong relationship between TCFD reporters and NZ CS reporters

Of note, 31 companies of the 111 made full or partial NZ CS disclosures in FY23,

- 74% (23 out of 31) reported against TCFD in their FY22 or FY21 annual reports

In contrast, 8 companies tackled climate-related disclosures for the first time,

- 26% (8 out of 31) did not report against TCFD in their FY22 or FY21 reports

In FY23 reports, TCFD continued to guide progress towards NZ CS

- 81% (25 out of 31) refer to TCFD in their FY23 annual reports to illustrate alignment between both reporting regimes

1. The five companies that voluntarily fully disclosed against NZ CS

Company name	The climate statement was found in	Number of pages	Institute's summary comments
1. Auckland International Airport	Climate change disclosure report	12	<p>Full disclosures against NZ CS are made in a standalone external document. This external document is referred to in the FY23 annual report (see p. 75, FY23 annual report) although not directly linked.</p> <p>Disclosures are detailed and comprehensive, covering all four of the thematic areas of NZ CS. As part of disclosures under 'Strategy', a case study reflecting on the January 2023 Auckland floods has been included, noting that the event 'demonstrated the importance of transition and adaptation plans' (see p. 7, Climate Change Disclosure Report 2023).</p> <p>Long term time frames considered under 'Strategy' cover 10–30 years.</p>

Company name	The climate statement was found in	Number of pages	Institute's summary comments
2. Investore Property	Sustainability report	19	<p>Full disclosures against NZ CS are made in an external sustainability report. This sustainability report is referred to in the FY23 annual report (see p. 8, FY23 annual report) although not directly linked.</p> <p>Disclosures are detailed and comprehensive covering all four of the thematic areas of NZ CS and can be found in a dedicated section of the sustainability report. The long term time horizon considered in the development of the climate scenarios is 2050–2100 (see p. 22, Sustainability Report 2023).</p>
3. Meridian Energy	Climate-related disclosure	29	<p>Full disclosures against NZ CS are made in a standalone external document. This external document is referred to in the FY23 annual report (see p. 46, FY23 annual report) although not directly linked.</p> <p>Disclosures are detailed and comprehensive covering all four of the thematic areas of NZ CS. In particular, the 'Strategy' and 'Metrics and Targets' sections cover 16 and 8 pages respectively.</p> <p>Similarly to Investore Property, the long term horizon considered in the development of the climate scenarios is 2050–2100 (see p. 5, Climate-Related Disclosure FY23).</p>

Company name	The climate statement was found in	Number of pages	Institute's summary comments
4. Sanford	Annual report	12	<p>Full disclosures against NZ CS are made within the annual report (see pp. 117–128, FY23 annual report).</p> <p>Disclosures are detailed and comprehensive covering all four of the thematic areas of NZ CS and can be found in a dedicated section of the annual report. Of note, a detailed graph of inputs and outputs regarding the company's risk management process is included (see p. 125, FY23 annual report). The long term time horizon considered in the development of the climate scenarios is stated as 2032+ (10+ years).</p>
5. Tourism Holdings	Annual report	13	<p>Full disclosures against NZ CS are made within the annual report (see pp. 23, 34–36, 38–43, 44–46, FY23 annual report).</p> <p>Disclosures are reasonably detailed and comprehensive and are made in different sections throughout the annual report. An index stating where the disclosures can be found is not included. Disclosures that are more comprehensive and structured can be found in the company's sustainability section of their website which is directly linked (see p. 40, FY23 annual report).</p> <p>The long term horizon considered in the development of the climate scenarios is over 10 years.</p>

2. What have we learned

1. Global interest in these reports and the standards can be expected
2. Early adopters represent a broad range of sectors (e.g. transport, energy, food)
3. Companies are embedding climate in their governance structures (e.g. 'Sanford's Board skills matrix includes climate change within the 'sustainability' skills category', see p. 117, Sanford FY23 annual report)
4. We are all in the process of building 'our climate-related disclosure expertise' (see p. 46, Meridian Energy FY23 annual report)
5. The scale of change that we are facing is extreme (e.g. 'the unprecedented level of rainfall received on 27th January came much earlier than predicted under even the worst case climate scenario', see p. 7, Auckland International Airport Climate Change Disclosure Report 2023)

2. What have we learned (continued)

6. Companies are now looking out very long-term (e.g. time horizons of 2050–2100 in climate scenarios, see p. 5 Meridian Energy Climate-Related Disclosure FY23)
7. Case studies/stories help illustrate lessons learned (e.g. Auckland floods, see p. 7, Auckland International Airport Airport Climate Change Disclosure Report 2023)
8. Stricter regulations are expected (e.g. energy and carbon caps, see p. 29, Investore Property and ‘[s]peed of regulatory change and legal compliance’, see p. 35, THL Holdings FY23 annual report)
9. Demand for electricity is expected to increase (see p. 30, Investore Property Sustainability Report 2023)
10. Asset management is increasingly on the agenda (e.g. ‘[c]hanges in ground conditions and slope stability undermines assets and connected infrastructure, resulting in damage to or loss of assets’, see p. 31, Investore Property Sustainability Report 2023)

1. NZ CS observations

- Given the standards are not yet mandatory, the voluntary uptake is promising
- Some smaller companies express awareness of NZ CS even if they are not required to report, indicating they also support the standards
- Preparers should ensure they provide a link to climate disclosures made outside of the annual report
- Disclosures can sometimes be poorly labelled and/or difficult to find

2. Three recommendations

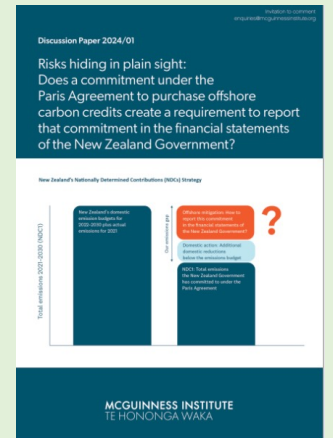
1. Disclose retrospective carbon emission reductions from FY2020 onwards (e.g. Auckland International Airport, Meridian Energy & Sanford). This may help evidence a decrease in the NDC1 emissions gap (see BTR1 on slide 22).
2. The complete climate statement (rather than a link to a separate document) should be contained within the annual report. This would help align risks identified in the climate statement with provisions/contingent liabilities reported in the annual report. The level of change we expect to see in the next five years means investors will be seeking clarity and consistency between financial statements and climate statements.
3. The climate statement, and in particular specific NZ CS disclosures, should be contained in a dedicated section in the annual report, which should be easily found in the table of contents. There were a small number of cases where the disclosures were scattered throughout the annual report. Investors will be seeking out climate statements to inform them of the risks that may exist in the current business model and to judge how decision makers around the boardroom table are adapting to climate change.

3. Next steps for the Institute

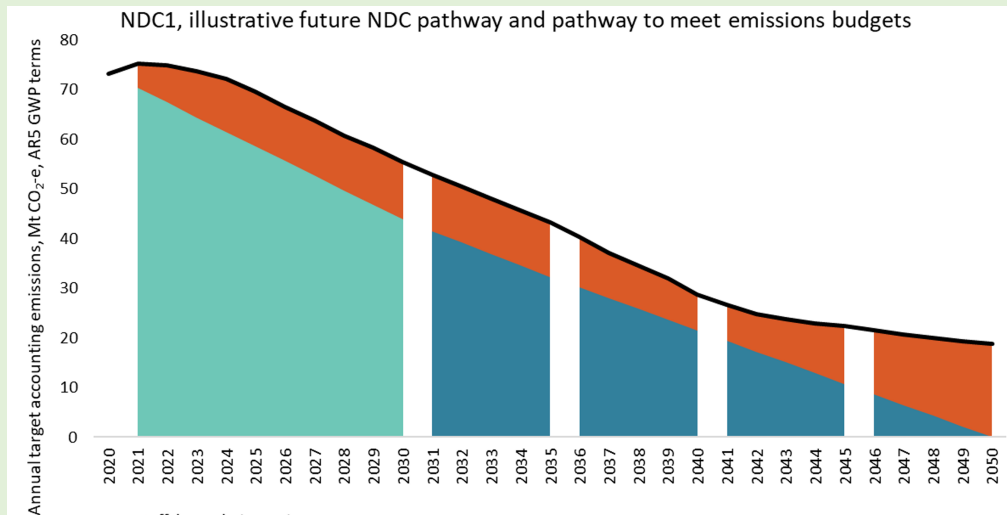
Upcoming publications

- Discussion Paper 2024/01 – Risks hiding in plain sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?
- Working Paper 2023/04 – Analysing TCFD Information Disclosed in 2017–2022 Annual Reports of NZSX-listed Companies
- Working Paper 2024/05 – Illustrating what 1 megatonne of carbon looks like in a New Zealand context
- Working Paper 2024/07 – Collating Climate Statements contained in 2023 Annual Reports of NZSX-listed companies. Note: Initial results from the analysis of 111 FY23 annual reports will be published shortly. A final working paper with the same name will be published once all 131 FY23 annual reports are available.
- Working Paper 2024/08 – Analysing Carbon Offset Information Disclosed in 2021, 2022 and 2023 Annual Reports of NZSX-listed companies
- Working Paper 2024/09 – Reviewing Annual Reports for Innovative Climate Reporting Solutions (working title)
- Report 18 – Climate Change Strategy for Aotearoa New Zealand

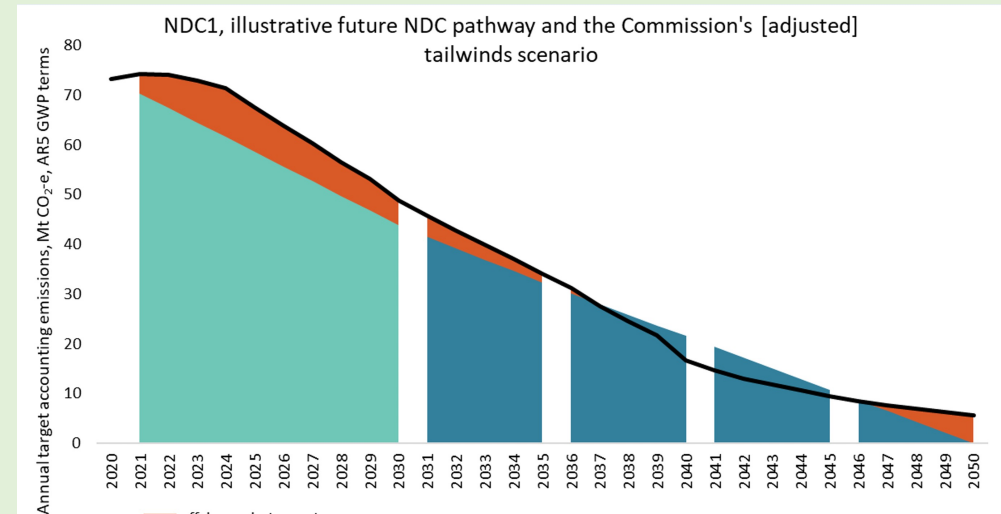
3. Next steps for the Institute continued



Scenario A: The demonstrative pathway



Scenario B: The tailwinds pathway



3. Next steps for the Institute continued

6.4 Recommendations for the Minister of Climate Change

In the next two years, New Zealand must undertake at least two actions under the Paris Agreement:

1. Submit the next round of NDCs (i.e. NDC2) by 2025 and every five years thereafter (i.e. 2030, 2035, 2040), regardless of implementation time frames.⁹³ NDCs are submitted at least 9 to 12 months in advance of the relevant session of the Conference of the Parties.⁹⁴
2. Submit New Zealand's first biennial transparency report (BTR1) in accordance with the modalities, procedures and guidelines (MPGs), by 31 December 2024 at the latest.⁹⁵ This report may provide greater detail on the measurement methods used by New Zealand for calculating total emissions, and explain how and why they differ from other countries.

Note: We are currently exploring with MfE how the reporting of scopes 1, 2 and 3 in the climate statements may be used to stress test/verify the emissions figures contained in the GHG inventory. In addition, we are interested in exploring innovative ways for Government and business to work together to co-invest in reducing the NDC1 emissions gap.

4. Websites of interest

See the Companies Office's Climate-related Disclosures Register

– www.companiesoffice.govt.nz/all-registers/climate-related-disclosures

See the McGuinness Institute's Table of FY23 Climate Statements

– www.mcguinnessinstitute.org/research-projects/climate-change-nz/register-of-climate-related-disclosures-of-nztsx-listed-companies