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Submission on:

Climate-related Disclosures

By Carbon and Energy Professionals New Zealand

1. INTRODUCTION

- 1.1** CEP welcomes the opportunity to comment on the XRB's Climate-related Disclosures consultation. CEP has long advocated for mandatory climate-related disclosures and welcomes the introduction of a disclosure regime, which we would like to see extended beyond the current inclusion limits. We wish the XRB well in introducing an effective disclosure environment for climate-related issues.
- 1.2** For context, CEP is the professional body that represents energy efficiency and carbon professionals in New Zealand. We train and certify individuals in a wide array of energy efficiency, carbon management and carbon measurement disciplines.
- 1.3** CEP is affiliated with Engineering New Zealand as a Collaborating Technical Society. The CEP membership comprises expert level practitioners in energy efficiency and carbon management, the people who will deliver carbon reductions across the New Zealand business environment.
- 1.4** CEP is a not-for-profit Incorporated Society. Supporting effective energy, carbon and sustainability management is embedded in our constitution.
- 1.5** CEP has an interest in climate-related financial disclosures as many of our members and certification holders will be directly involved in the assessment and mitigation of climate related risk.

2. COMMENTS

Our comments on the questions raised by the XRB are:

2.1 Primary Users

We agree with the inclusion of investors and lenders in the definition of primary users. The inclusion of insurance underwriters is less compelling.

2.2 Governance

2.2.a Usefulness

The disclosure information proposed is relevant to primary users. There are additional, relevant items that should be included or more clearly specified in the regulations. These are raised below.

2.2.b Clarity

The proposed section is sufficiently clear on disclosure expectations.

2.2.c Comprehensiveness

The section would be strengthened by the inclusion of requiring comment on Governance procedures for reviewing risk strategy, appetite for risk retention and philosophy towards adaptation.

2.3 Risk Management

2.3.a Usefulness

This information will be useful.

2.3.b Clarity

The proposed section is sufficiently clear on disclosure expectations.

2.3.c Comprehensiveness

The section would be strengthened by the inclusion of requiring comment on the organisation's high-level strategy towards mitigating climate-related risk, with particular reference to risk appetite and philosophy on retaining versus transferring climate-related risk and how it will monitor changes in the risk transfer market for climate-related risks. This strategic commentary should also reference strategies and plans around adaptation in response to climate change.

2.4 TCFD Alignment

There is strong merit in close alignment to the TCFD. Where practical, TCFD definitions should be adopted. Where this is not practical for a mandated standard, close alignment is beneficial to minimise costs for organisations operating internationally and opting to follow TCFD.

2.5 Risk Definitions

2.5.a Downside and Upside Risk and Reward

Mandatory disclosure should give greater weight to potential downside risk from climate change than upside opportunities. The mandated elements of disclosure need to ensure investors are sufficiently informed about potential downside risks, especially in the case of risks they may not have the knowledge, expertise or resources to identify themselves. Upside opportunities should be part of strategic announcements organisations would ordinarily include in published documents. Mandatory disclosure on the detail of upside opportunities will impinge on commercial confidentiality and inhibit the reward side of risk/reward decisions.

2.5.b Definition Clarity

The term “climate-related issues” is vague. It is appropriate for generalities but the more explicit, “climate-related risks” should be the focus of mandatory disclosure.

The definition is sufficiently clear that, in the document, “climate-related risks” refers to negative or downside risks. There may be a case, however, for up-front clarification on this. The term risk can carry different meanings to different readers and so early statement of this definition would help reduce potential confusion.

2.6 Defined Terms – Other Issues

Valuable information in disclosures would be comment on the organisation’s appetite to accept climate-related risk and its strategy on risk retention. With this in mind, definitions of “risk appetite”, “risk strategy” and “adaptation” may be useful.

2.7 Adoption Provisions

No comment on this question.

2.8 Sector Neutrality

Sector neutrality for NZ CS 1 would simplify understanding and is preferred so long as sector specific guidance is comprehensive.

3. ADDITIONAL COMMENTS

There are several important points that are omitted or only lightly addressed in the consultation document that would be significant for investors when considering climate-related risks facing an organisation, as follows:

- The strategies for mitigating climate-related risk, including appetite for risk retention, adaptation and risk transfer. Disclosures should expressly require comment on such strategies and the frequency of their review;
- The reporting regime put in place also needs to be applicable should the reach of mandatory reporting be extended to capture wider groups of organisations. The final version should facilitate this;
- Reporting requirements should include comment on procedures around the setting and monitoring of quality assurance for risk assessments and emissions reporting;

- We note the tight timelines around the introduction of reporting requirements. While we look forward to seeing the introduction of climate-related risk disclosure, it is important haste does not compromise quality of outcomes and urge the XRB to ensure competitive market supporting mechanisms are in place before compliance is mandated, otherwise the disclosures will carry unnecessary and wasteful costs.

4. CONCLUSION

The Climate-related Disclosures consultation document is an excellent start to introducing a climate risk disclosure regime to the New Zealand market. While there is some room for further improvement, introduction of disclosure requirements is welcomed.



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