

22 November 2021

External Reporting Board

PO Box 11250

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Dear April,

Thank you for the opportunity to submit feedback on your draft standards. This is a joint submission from three consultants (James Hughes, Anita Holmes and Emma Singh) in their personal capacities and is not an official submission from their employer. We are pleased to provide you with feedback on the proposed Governance and Risk Management sections of the Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1). Below we provide our expertise and our answer to the questions in the consultation document.

1.1 Background

We have extensive experience delivering climate change risk assessments and assisting clients with their climate change strategies.

James Hughes has worked in the infrastructure, environmental and climate change areas for 20 years. He was recently involved in the development of climate risk assessment guidelines for the Ministry for the Environment (MfE) and was part of MfE's Climate Change Adaptation Technical Working Group during 2018.

Emma Singh has over 10 years' global experience in delivering climate and multi-hazard risk assessments. Her experience includes quantification and optimisation of insurable risk, catastrophe modelling, modelling critical infrastructure disruption and volcanic risk.

Anita Holmes has experience in strategy and policy development and analysis, leading initiatives to reduce emissions from process heat to support wider energy and industry component of the national Emissions Reduction Plan and supporting the development of Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan.

1.2 Questions in the consultation document

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| 1 | Primary users have been identified as existing and potential investors, lenders and insurance underwriters. Do you think that all of these users should be included in the primary user category? |
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Agree, noting that the word primary is important as there are other potentially relevant users. Particularly in the case of the local government/public sector where disclosures could be of much broader interest to communities.

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| 2 | Do you think the proposed governance section of NZ CS 1 meets primary user needs?
a) Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential |
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investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.

- b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?
- c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?

- a) We agree that the proposed governance section of the NZ CS 1 will enable primary users to understand the role of an entity's board and management in overseeing, assessing, and managing climate-related issues. However, we raise a concern with how a primary user will determine whether the oversight and management disclosed is appropriate for effectively managing climate related issues. For example, how will a primary user determine whether the processes by which an entity's management is informed about, makes decisions on, and monitors, climate-related issues are sufficient/fit for purpose? This is where there is potential to provide additional guidance (by sector) on best practice with regards to governance. We note that XRB has stated that such guidance may become available in time.
- b) Yes, this section is clear.
- c) Yes, this section is adequately comprehensive.

3 Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?

- a) Do you think that the information provided under this section of the standard will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.
- b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?
- c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?

- a) As our response to 2a) above, we agree that the proposed risk management section of the NZ CS 1 will enable primary users to understand how an entity's climate-related risks are identified, assessed, and managed, and how those processes are integrated in existing risk management processes. However, there is a need for a primary user to be able to understand good risk management in comparison to bad risk management and without further guidance on best practise we don't see how the primary user will determine the quality and robustness of the entity's risk management activities.
- b) See below for our comments:
 - Under 4a) some of the language is ambiguous/non-standard, for example "*scope, size, and impact*" could be improved, for example, the magnitude, extent, etc.
 - Under 4c) in addition to value chain stage(s) include macro environment risk, e.g., legislative changes, carbon pricing, market changes, changes in insurance and lending criteria.
 - The ability to determine the relative significance between or across risks varies greatly depending on context. If risks are quantifiable using a similar quantitative metric (e.g., \$), then this may be possible. Similarly, risks can be compared, if they are within the same asset class (e.g., buildings), however, this is far more difficult when they are assets within completely different categories (e.g., building asset vs organisational reputation).

- Comparing climate risks to other non-climate risks will also be problematic, given different methodologies, different risk rating systems and the inherently subjective nature of some assessments.
 - Noting that “*mitigate, transfer, accept or control*” would normally include, mitigate, transfer, accept or avoid.
- c) Under 4 an additional point should be added around data/input information. For example, physical and transition scenario assumptions (e.g., RCPs); climate projection data and associated assumptions and uncertainty; and uncertainty around assets/organisational vulnerabilities.

4 The XRB has primarily drawn from the TCFD’s definitions for its defined terms. Do you agree that we should align closely with the TCFD’s definitions?

We agree that the guidelines should be aligned with TCFD definitions. The New Zealand Standards will be set prior to international standards, and it is important that the standards produced by New Zealand based companies align with what is occurring in the international context. There may also be merit in aligning with the recently published MfE guidance (physical risk only).

This will be especially important for comparison with large multinational entities who may be required to report in multiple areas. It will also be important to enable comparison between entities or if there are trade requirements put in place.

Risk parameters would need special consideration for physical risk vs transition risk as they have quite different contexts, and a common assessment approach may not be feasible.

5 The XRB is particularly interested in feedback on the following defined terms as they are currently proposed: ‘climate-related risk’, ‘climate-related opportunities’, ‘climate-related issues’, ‘physical risk’, and ‘transition risk’.

a) Do you consider that the XRB should align with the TCFD and use the terms ‘climate-related opportunities’ and ‘climate-related issues’, or should we only refer to ‘climate-related risks’?

b) Do you consider that the proposed definitions for these terms are accurate, sufficiently clear and well-explained? Do they need further detail or explanation? If so, should that detail be included in the defined terms or in guidance?

- a) We agree with the terms *climate-related risks* and *climate-related opportunities* with the umbrella term of *climate-related issues*.
- b) Types of risk that aren’t easily capture in the physical/transition risk categories include:
- Risks due to legislation that addresses physical climate change risk or adaptation (e.g. the forth coming adaptation legislation).
 - Transition risks/opportunities that come with the movement of populations away from hazardous areas (migration of workers away from high-risk areas vs influx of people from high-risk areas).
 - For physical risks, the distinction between direct and indirect/cascading risks can be helpful.

6 Do you have any other views on the defined terms as they are currently proposed?

No comment.

7 The XRB is currently of the view that adoption provisions for some of the specific disclosures in NZ CS 1 will be required. However, the XRB does not believe it is necessary to

provide any adoption provisions for entities in relation to the Governance and Risk Management disclosures. Do you agree with this view? Why or why not?

No comment.

8 The XRB currently intends NZ CS 1 to be concise and sector neutral, with sector-specific requirements to be contained in guidance. Do you agree with this approach?

We support this approach; however, it does depend on how generic NZ CS 1 is and the level of detail it goes into. Public and private sectors have very different requirements, and the standard should be generic enough to not capture any requirements specific to a certain entity or sector.

9 Do you have any other comments?

No comment.

Yours sincerely,

James Hughes, Anita Holmes and Emma Singh

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