

Submitted by email

External Reporting Board
PO Box 11250, Manners St Central,
Wellington 6142

Re: Bloomberg feedback to “Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures” (NZ CS 1).

22 November 2021

Dear Sir/Madam,

Bloomberg appreciates the opportunity to provide feedback to the External Reporting Board's (XRB) consultation on “Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures” (NZ CS 1). Bloomberg also welcomes the passing of the “Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill” (the Amendment Bill), which will ensure financial institutions disclose their climate-related risks and opportunities. NZ CS 1 is a timely next step to address both the challenges and opportunities arising from climate change and to facilitate New Zealand's ambitions to reach carbon neutrality by 2050.

Bloomberg helps generate awareness on the importance of addressing climate change. By way of supporting capacity building and to help point attention to the Amendment Bill, in September 2021 we hosted a webinar on “TCFD: Risks and opportunities in sustainable investment” with the Hon James Shaw, Minister for Climate Change and Associate Minister for the Environment (Biodiversity) as our keynote speaker. From our ongoing market engagements, we understand that market participants look forward to further details to the upcoming requirements, more detailed guidance so as to be able prepare early for mandatory reporting.

Please find below our comments to NZ CS 1.

In the meantime, if there is any way in which I or Bloomberg can be of assistance going forward, please do not hesitate to get in touch.

Your sincerely,

Vicky Cheng
Head of APAC Government and Regulatory Affairs
Bloomberg LP

Bloomberg feedback to “Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures” (NZ CS 1).

Bloomberg is at the forefront of promoting and implementing a sustainable financial system globally, working with investors, cities, policymakers, regulators, and international institutions to drive the sustainable finance agenda. Bloomberg is a member of multiple sustainable finance expert groups, including in the European Union (EU), Hong Kong, Singapore, and the United Kingdom (UK).¹ At the international level, Bloomberg chairs and provides the Secretariat for the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We would be very happy to provide any additional information on any of the points raised in this letter.

I. General comments

Bloomberg welcomes the External Reporting Board's (XRB) publication of NZ CS 1; this marks an important step in further cementing the central role that climate-related risk management plays in financial markets as the risks of climate change continue to grow and reach all sectors of the economy.

The financial sector has a fundamental role to play to ensure an orderly transition and help reach net-zero targets. The broad scope of entities that will be subject to the mandatory disclosure requirements in XRB standards will encourage better availability of climate-related data for the end-investment community reliant on reported data to quantify the impact of their investments, further facilitating financial flows to activities that address the climate change crisis.

Bloomberg also welcomes XRB's decision to use the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as the basis for the future climate-related disclosure framework. Through widespread implementation of the TCFD recommendations, climate-related risks and opportunities will become a natural part of companies' risk management and strategic planning processes. As this occurs, firms' and investors' understanding of the implications associated with climate change will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital and contributing to a more orderly transition to a sustainable economy.

The consultation highlights on Page 13 that XRB will seek to ensure a degree of compatibility as appropriate with respect to the future global baseline standards to be developed by the International Sustainability Standards Board (ISSB). While we believe that the development of a global standard should not inhibit New Zealand's efforts to implement its own mandatory reporting regime, we recommend XRB to consider aligning its upcoming standards with the future ISSB standards to the extent possible and when feasible to minimise market fragmentation.

Format of disclosures

As highlighted in the consultation, the “Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill” (the Amendment Bill) does not specify the format of disclosures, but XRB is expecting to develop some form of presentation requirements as laid out in Table 1. To improve the quality and accessibility of data, Bloomberg would encourage disclosures to be presented as a set of Y/N questions, where feasible, in the entity's annual report. For instance, Y/N type questions on Governance may include: (i) whether the board and/or board committees consider climate-related issues when reviewing and guiding: strategy; annual budgets; and/or business plans; and (ii) whether the board and/or board committees consider climate-related issues when setting the organisation's performance objectives and monitoring implementation and performance.

Section 10.4 states: “At this point, we are envisaging that, in cases where an entity wishes to integrate the disclosures throughout their annual report, entities will be required to provide a reference table in the climate statement. This reference table would cross-reference between the required disclosures

¹ Bloomberg is a member of the: EU Platform on Sustainable Finance; UK Green Technical Advisory Group (GTAG); Hong Kong's Centre for Green and Sustainable Finance, launched by the Green and Sustainable Finance Cross-Agency Steering Group; Hong Kong Securities and Futures Commission (SFC) Climate Change Technical Expert Group (TEG); and the Green Finance Industry Taskforce (GFIT), convened by the Monetary Authority of Singapore (MAS).

and their location in the annual report". We agree with this rationale, but we would reiterate that it is crucial that disclosures across entities are provided in a consistent location to ensure maximum transparency and accessibility. Specifically, for firms that release annual financial filings, Bloomberg believes disclosures should be part of these existing, mainstream financial filings (such as annual reports) to ensure the information has gone through a rigorous review process. Where firms do not release annual financial filings, another annual public report would be appropriate.

It is also very important that disclosures are digital, contain machine-readable information that is common and comparable, in addition to binary or metrics-based answers. This will improve the quantity and value of quantitative information which is key in assessing companies' considerations of climate risks.

Prescriptive requirements for firms

Bloomberg would underscore the importance of creating prescriptive guidance for entities' disclosure to accompany NZ CS 1. This would help in-scope entities better understand how to effectively manage climate-related risks relevant to their business. To that end, we welcome XRB's approach to include in the standard not just the Task Force's four overarching recommendations but also each of the 11 recommended disclosures. Doing so will provide end-users with higher quality and more granular information to help them assess entities' climate-related risks and opportunities. Ultimately, disclosures need to contain both backward- and forward-looking metrics and activity as well as industry specific key performance indicators (KPIs). The information provided should, at a minimum, include metrics on company greenhouse gas (GHG) emissions (Scopes 1, 2 and 3), a description on carbon emission targets (and steps taken to achieve them), actual and projected financial impacts, and assessments of strategy resilience using scenario analysis.

Moreover, it is key that the NZ CS 1 and any accompanying guidance facilitates the integration of climate-related risk into the wider mainstream risk management practices of entities. For example, with respect to banks, climate-related risk assessments should be incorporated into client onboarding/KYC, credit application, and credit review processes. Independent and effective risk management and compliance functions should be responsible for overseeing, monitoring and reviewing climate-related risks in business activities. There also needs to be an effective internal audit function responsible for providing assurance and period audit evaluation on the effectiveness of an entity's climate-related risk management. Where relevant to the business operation, entities should also understand and assess how climate-related risks relate to traditional risk types, such as credit risk, market risk, liquidity risk, and operational and legal risk to effectively identify the risks and opportunities associated with climate change.

Lastly, section 1 of NZ CS 1 highlights that XRB recognises the importance of wider ESG matters and that it will undertake work in this area in the context of reporting. Bloomberg welcomes this and would encourage XRB to establish mandatory disclosures of ESG indicators applicable to financial market participants to improve the quality of quantitative and science-based ESG data. As an example of this we would refer to some elements of EU's Sustainable Finance Disclosure Regulation (SFDR), in particular, the principal adverse impact (PAI) disclosure regime and detailed set of PAI indicators.