

Submission on *Climate-related Disclosures*

Organisation

Organisation	Institute of Finance Professionals New Zealand Inc (INFINZ)
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Responses to discussion document questions

Introduction

INFINZ is supportive of the XRB's proposed Climate-Related Disclosures and compliments the XRB on the quality of the Consultation Document and the process the XRB is following. INFINZ acknowledges the threats raised by climate change and their importance for the organisations with which our members are engaged.

It is hard to believe that there will be any sector of the New Zealand economy that will escape exposure to climate change risk, whether direct or indirect. Beyond the direct impacts on New Zealand firms, however, the New Zealand public are concerned about climate change and have a very realistic expectation that the business sector, not just the financial sector, should respond accordingly.

Climate change will increase risks for New Zealand firms in terms of where and how their business can be undertaken. Some business locations may be rendered unviable by flooding or sea-level rise, or by higher temperatures and droughts. Some business activities may have to be discontinued because of changes in the availability of water, energy, or other resources. Even where these activities can be continued, we should expect changes in resource usage.

For banks, there is the risk that firms they lend to (including agricultural businesses) will face business disruption in response to climate change, or from the responses of others to climate change. Housing lending will also be impacted as some locations become less viable for continued occupation.

For insurance companies and other financial market participants, climate change brings increased natural disaster risk, while there will be locations and business activities for which it may not be realistic to continue.

Investors (both current and potential), counterparties and other stakeholders in New Zealand firms deserve to have relevant information made available to them, so that they can make reasonable assessments of the risks of engaging with exposed firms. Disclosure should apply to all firms (although it may only be mandatory for larger firms at the outset), as non-disclosers would be likely to face suspicion from their counterparties.

Disclosure of risks should also force firms to take climate risk seriously: failure to do so would show up in the disclosures, raising the concern of counterparties as to firms' future if they don't address climate risk appropriately. It will ultimately be counterparties' ability

to compare the disclosures of different firms that will force firms to take climate risk and its disclosure seriously.

With the closing of COP 26, the world is moving closer towards a 1.5-degree target emissions pathway and this should be viewed as the central case for businesses to anchor their reporting and in turn the practices to achieve that target. We therefore encourage the XRB to continue supporting early adoption of the proposed standards ahead of the timelines proposed in the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (the Act) and ensure a 1.5-degree scenario is increasingly viewed as the base case.

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?

Yes, and we would support the inclusion of Regulators.

2

Do you think the proposed Governance section of NZ CS 1 meets primary user needs?

We are supportive of the information being provided under NZ CS 1 being useful for decision making and it is clear for users of the proposed standard.

One area we do flag for potential improvement is requiring the disclosure of climate-related skills and competencies of the Board members. One of the key drivers identified by the Aotearoa Circle Sustainable Finance roadmap was capability building; if entities have to disclose their capabilities this will increase the incentive for them to build or attain such competences. Areas we note for improvement are:

- Board members should disclose any specific climate-related skills and competencies.
- Boards should demonstrate how they are building skills and competencies as part of a wider skills matrix assessment.

3

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

We are supportive of the information being provided under NZ CS 1 being useful for decision making and it is clear for users of the proposed standard.

The argument for not including detailed specific climate related risks because the 17 risks are not comprehensive and because it could be used as a checklist, is not a valid argument. The standards can be developed in a way where the list provides the minimum disclosure (which will be a checklist for some), but all other material risks should also be disclosed. If the standards are not specific it will be easy for disclosing entities to only disclose favourably, rather than comprehensively.

Further, the consideration of time horizons is extremely important: as described by Mark Carney, climate change is a tragedy of the horizons. These standards should encourage reporting entities to report medium and long term risks, and not allow them to focus only

on short and/or medium term risks; otherwise we face the risk that these standards will not align to the horizon that is matched with the risk.

4,5&6

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?

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’.

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

We would encourage the XRB to separate out both climate related risks and climate related opportunities, as emphasised by the Act itself (section 19B). This will ensure companies can report and explain to stakeholders not only the risks to their existing business but provide greater clarity on the forward strategy. We would also encourage where possible alignment with international standards and definitions as this is important for standardisation and use of the data disclosed.

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?

We agree with there being no need for Governance and Risk Management adoption provisions, for the reason set out in the Consultation Document. However, we would like to ensure that any adoption provisions granted in the areas of Strategy, Metrics and Targets are implemented with short timeframes.

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?

Yes, we are supportive of this approach. Simplicity and comparability are key. Limiting the amount of specific guidance for different industries and focussing any such specific guidance on how best to enable comparability across sectors, will assist in enabling stakeholders to better review and compare.

9

Do you have any other comments?

We note that the timeline for all standards CS1, guidelines & adoption standards (CS2) is not overly clear. More clarity on this is needed.

We would like to see the XRB take an increased leadership position and set for the purpose of scenario analysis and reporting a baseline of 1.5 degrees

Metrics and their comparability will be critical to ensuring quality reporting is produced that can be easily analysed. Whilst not explicitly the role of the XRB, we would encourage more discussion on making climate data more freely available to support comparability and metric calculations. This should also assist more firms, outside of those currently required to comply, to voluntarily adopt these new standards and improve the system as a whole.

With respect to emission reporting, we would support all businesses being required to report their Scope1, 2 and 3 emissions under their scenarios. This will enable better accountability and understanding of the climate impacts faced by business.

INFINZ represents 2000 individual members from across the financial sector eco-system - www.infinz.com. We welcome the opportunity to submit on this important topic and the to continue partnering with the XRB as the NZ CS 1 standards are developed and implemented.