

CLIMsystems Responses to XRB

Climate-related Standard Consultation Questions

1. The draft Aotearoa New Zealand Climate Standards are comprehensive enough and achieve the right balance between prescriptiveness and principles-based disclosures. The draft staff guidance documents will support Climate reporting Entities (CREs) when making their disclosures and support consistent application of the disclosure requirements.
2. In Climate-related Standard 3, table 1: Principles — Information, Verifiability: *‘To the extent possible, climate-related disclosures should be based on objective data and use best-in-class measurement methodologies, which may include common industry practice as it evolves.’* There are practical concerns regarding the accuracy and transparency of the data sources that can be applied for physical and transitional risks. The climate peril data including historical and future climate change signals must be the best available and the methodologies need to be transparent and defensible and follow Intergovernmental Panel on Climate Change (IPCC) standards and guidelines.
3. To utilize the scenario analysis in business strategy development and risk management, financial institutions need to further enhance the methodology, including addressing the issues identified in the exercise, considering their risk profiles as well as international developments in best practice.
4. In the draft guidance page 38: *‘The CFRF also provide a database of climate risk data providers tools and methodologies, while the United Nations Environment Program Finance Initiative (UNEP FI) provided a comprehensive guide to climate-related financial risk assessment methodologies in 2021, followed up by a supplement offering implementation case study insights in 2022.’*

The new generation of dedicated climate data-focused services and data providers needs to be mentioned. It is critical that country-specific, local data, be pressed into service to support New Zealand CREs to achieve best practice accuracy and granularity in their reporting.

5. In the draft guidance page 41: *‘Catastrophe Models. Probabilistic models based on deep understanding of the physical parameters that define a natural hazard (e.g., wind speeds) and characteristics of the exposures (e.g., location) Estimate potential losses from natural catastrophes’* This statement should be enhanced and expanded to include the following: Other approaches, including Value at Risk and Disruption to

Service approaches, supported by the analysis of acute and chronic physical climatic risks can be applied to quantify financial impacts. This will support item 14.c in the Exposure Draft where anticipated quantitative financial impacts must be reported unless an entity cannot achieve this outcome it must explain why.