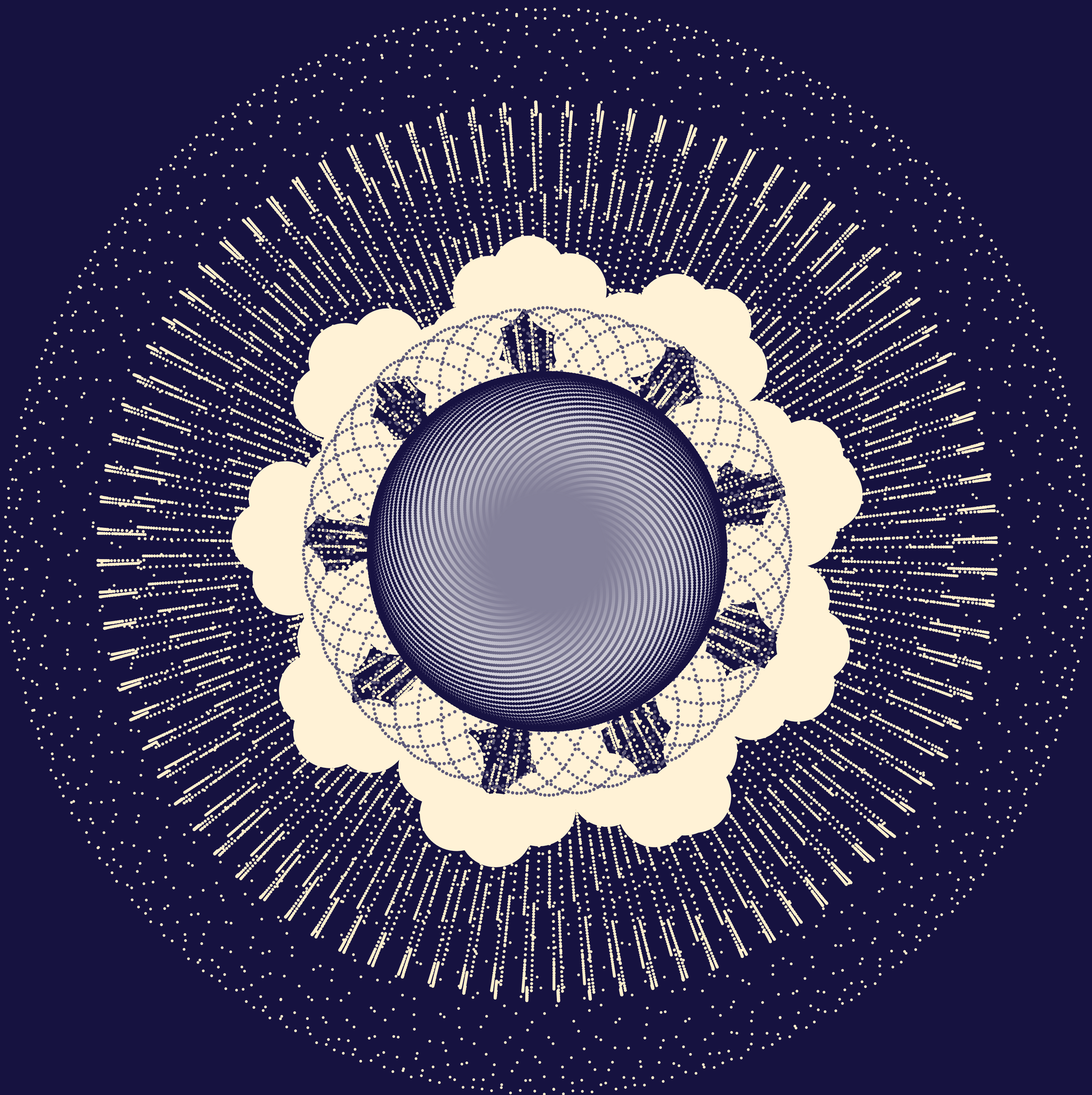
The time is now

A guide for climate-related financial disclosures

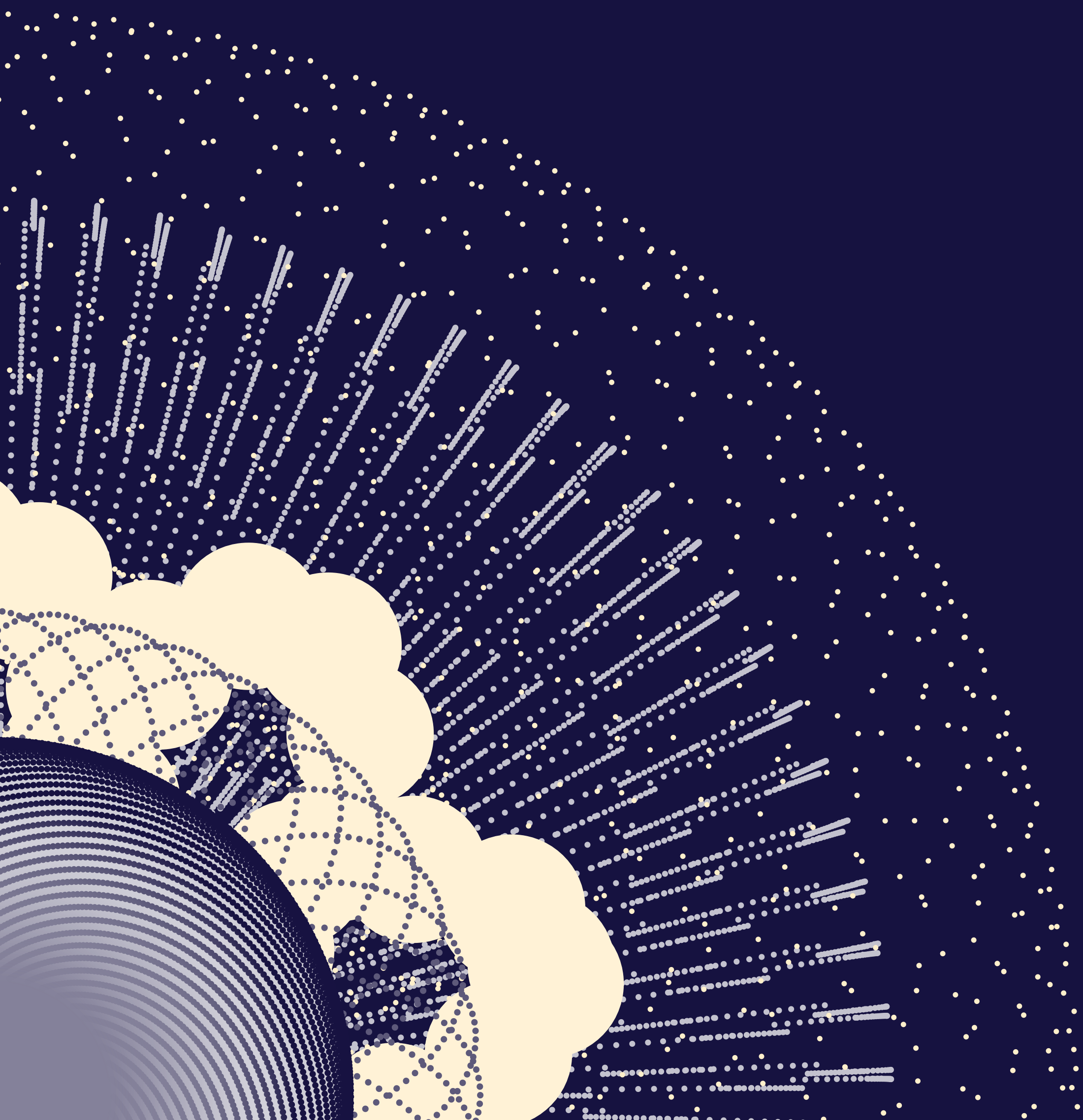
9 August 2021



chapman tripp consulting

The time is now to begin preparing for the disclosure requirements that will become mandatory when the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill, now winding through Parliament, comes into force.

It is imperative that affected organisations equip themselves with the data and expertise that will be required to comply with a New Zealand specific reporting framework based on the recommendations of the international Task Force on Climate-related Financial Disclosures (TCFD).



This guide covers the response to the Bill and provides our advice on preparing for the new regime. Areas covered include:

A bird's eye view of the Bill

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill will require 'climate reporting entities' to prepare annual 'climate statements' to accompany their traditional financial reporting.

Climate reporting entities are:

- all listed equity or debt issuers
- registered banks, credit unions and building societies, where the entity's total assets for each of the two preceding accounting periods exceed $1b
- licensed insurers, where the insurer's total assets or gross premium revenue exceed $1b and $250m respectively over each of the two preceding accounting periods, and
- managers of registered investment schemes where total assets under management exceed $1b.

Entities incorporated overseas will be captured only if their New Zealand business meets the financial thresholds. Because the thresholds are defined by accounting periods, an entity may be captured in some years but not in others.

Climate statements must be prepared according to a specific standard being developed by the External Reporting Board (XRB). This standard (and accompanying sector-specific guidance) is expected to adapt the global TCFD framework to New Zealand conditions and will:

- encourage entities to routinely consider the short, medium and long-term physical and transition risks and opportunities from climate change
- provide a framework for disclosure that demonstrates such consideration, and
- enable investors and other stakeholders to assess entities' exposure to, planning for and performance against these risks and opportunities.

As currently drafted, the Bill would require any disclosure of greenhouse gas emissions to be assured by a qualified CRD assurance practitioner.

The XRB's climate standard is expected to describe the level of detail required to be disclosed (for example whether entities need to disclose Scope 1, 2 and/or 3 emissions).

The Bill envisages penalties aligned with the Financial Markets Conduct Act, including fines of up to $5m for entities and $50,000 for directors, and up to five years' imprisonment.

The first climate statement obligations are expected to take effect for the 2022-2023 financial year (assuming the XRB meets its current timeline of publishing climate standards by late 2022).

The Bill is due to be reported back from Select Committee on 16 August 2021 and passed into legislation by the end of 2021.

Submissions on the Bill

The Economic Development, Science and Innovation Select Committee received

56 submissions

The majority of them from organisations which have a perspective to offer but will not be caught by the Bill

Submitters not caught by the Bill included The Victoria University of Wellington Climate Clinic, 350 Aotearoa, Deloitte, Beca, Certified Energy, Lawyers for Climate Action New Zealand Incorporated, the McGuinness Institute, The New Zealand Law Society, Toitū, and Generation Zero.

Many affected entities inputted into industry level submissions, including from the Financial Services Council, Financial Services Federation, Insurance Council of New Zealand, New Zealand Bankers' Association, the Boutique Investment Group and NZX Limited.

And approximately

1/4

of submissions were lodged by parties who are directly caught as climate reporting entities under the Bill

These include submissions made by several of the major banks, energy companies and exporters.

Only

10%

of direct submitters are already doing some form of voluntary reporting, of which

50%

are listed entities and around

1/3

are banks, investment managers, and insurers

Submission themes

Scope of entities caught

There were many calls for large private entities and/or public entities to also be covered by the Bill.

This is the position signalled by the UK, but not pursued in New Zealand. The Climate Change Commission has also recommended that the coverage of the regime be expanded.

There were some calls for small listed issuers to be exempt.

International alignment

Several submitters sought assurance that the incoming reporting requirements would be aligned with international practice and the TCFD reporting framework. For entities that are part of international corporate groups, consistency of reporting requirements will be significant.

International Sustainability Standards, aligned with the TCFD recommendations, are expected through the IFRS Foundation, building on the 2020 prototype standard produced by CDP, CDSB, GRI, IR and SASB.

Transitional arrangements

Numerous submitters supported some form of transitional arrangements to ease pressure from the existing implementation timeline. The majority of these would prefer a delay before disclosures become mandatory. The next favoured option was a phased-in transition with only partial disclosures required in the initial phases.

Reporting and assurance capability

The proposed assurance requirements caused most concern among submitters. Many submitters argued that expert assurance capacity needed to be increased and strengthened before assurance was made mandatory.

The industry is working to grow the expertise needed. The Sustainable Finance Forum Roadmap for Action recognised the need to improve the approach to, and uptake of, third party verification and assurance.

Scenario analysis

Many submissions called for guidance on climate change scenario analysis, including publicly available physical impact data and modelling (e.g. on sea level rise in New Zealand) to use as a baseline for scenarios. As a minimum, these submissions sought that the Government provide comprehensive standardised assumptions and guidance in this area, including the specific transition and physical risks that are relevant to New Zealand.

Penalties

Many called for transitional provisions or a delay before the FMA pursues enforcement options. These concerns arise from the severity of the proposed penalties, and the short timeframe within which reporting is expected to take place. Submitters focused on the need to incentivise investment to enable quality disclosures, rather than deter useful disclosures.

Where are things now?

New Zealand has seen rapid growth in voluntary climate-related reporting.

2018

5 listed issuers undertook some level of TCFD reporting
1 expressed intent to report

2019

6 undertook some level of TCFD reporting
3 expressed intent to report

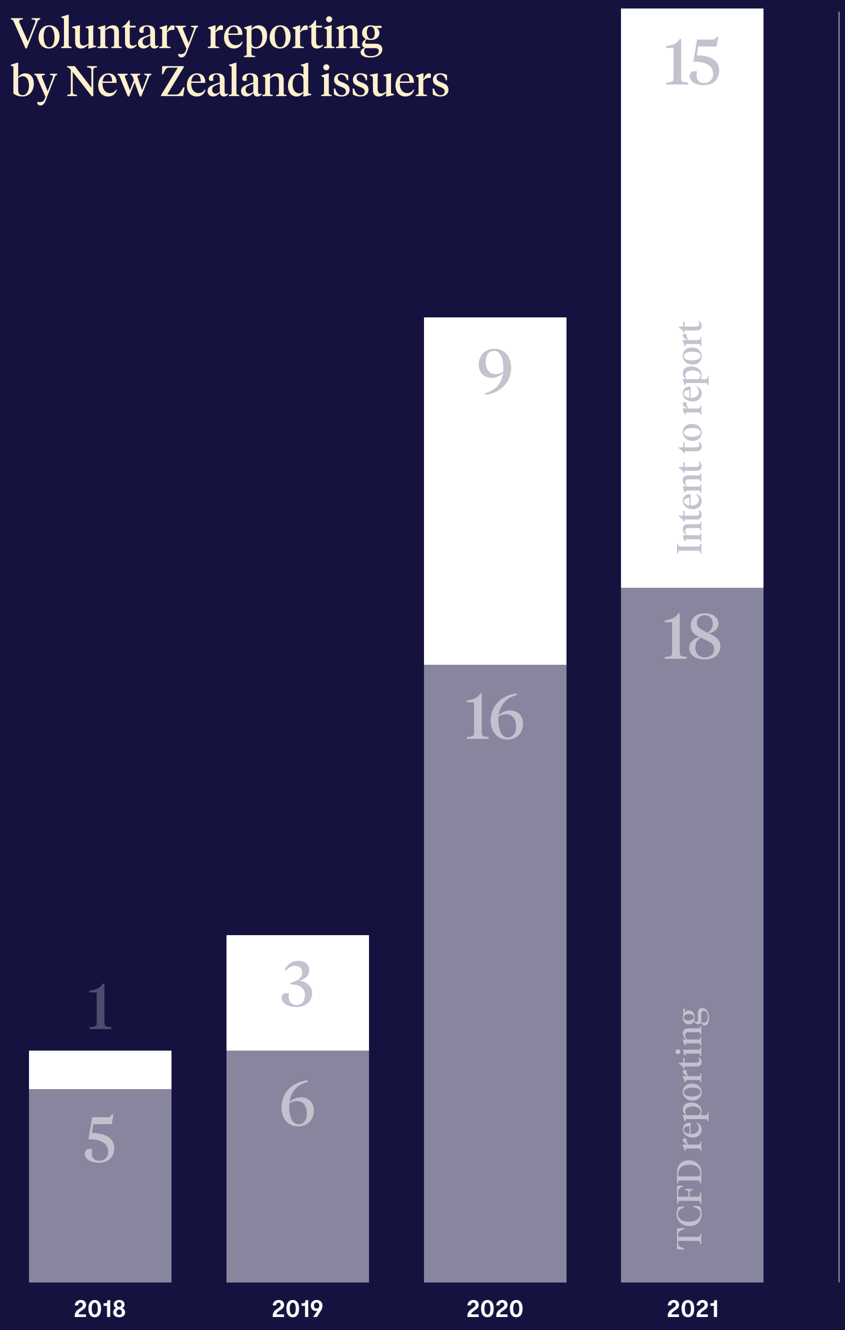
2020

16 undertook some level of TCFD reporting
9 expressed intent to report

2021

18 expected to undertake some level of TCFD reporting
15 expressed intent to report

McGuinness Institute is the source for 2018 to 2020 data.
2021 numbers calculated through Chapman Tripp research.



Approx.
200
entities will be covered by the Bill as presently drafted

The thresholds capture
approx.
90%
of the financial assets under management in New Zealand

16
insurers
will be caught by the Bill (19% of all registered insurers in New Zealand)

5/16
insurers
(31%) have already produced a voluntary TCFD report

+8
insurers
are close to being caught by the regime due to their assets or premium revenue

86%
of NZ banks
will be caught by the Bill

Half
of those banks
have already produced a voluntary TCFD report

Key themes of TCFD recommendations

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

Risk management

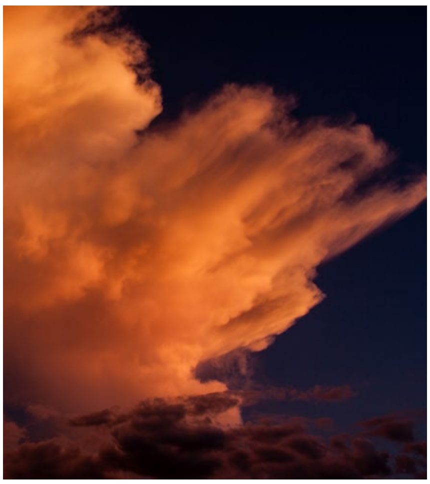
Disclose how the organisation identifies, assesses, and manages climate-related risks.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.



"Changes in climate policies, new technologies and growing physical risks will prompt reassessments of the values of virtually every financial asset. Those that fail to adapt will cease to exist. The longer that meaningful adjustment is delayed, the greater the disruption will be."

Mark Carney, Former Governor, Bank of England.

With every risk there's an opportunity

Risks

Transition

Policy and legal

- Carbon pricing and reporting obligations
- Mandates on and regulation of existing products and services
- Exposure to litigation

Technology

- Substitution of existing products and services with lower emissions options
- Unsuccessful investment in new technologies

Market

- Changing customer behaviour
- Increase cost of raw materials

Reputation

- Shift in consumer preferences
- Increased stakeholder concern/negative feedback
- Stigmatisation of sector

Physical

- Acute: Extreme weather events
- Chronic: Changing weather patterns and rising mean temperature and sea levels

Source: *Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, at pp 10-11.*

Opportunities

Resource efficiency

- Use of more efficient modes of transport and production and distribution processes
- Use of recycling
- Move to more efficient buildings
- Reduced water usage and consumption

Energy source

- Use of lower-emission sources of energy
- Use of supportive policy incentives
- Use of new technologies
- Participation in carbon market
- Shift towards decentralised energy generation

Products and services

- Development and/or expansion of low emissions goods and services
- Development of climate adaption and insurance risk solutions
- Development of new products or services through research and development, and innovation
- Ability to diversify business activities
- Shift in consumer preferences

Markets

- Access to new markets
- Use of public-sector incentives
- Access to new assets and locations needing insurance coverage

Resilience

- Participation in renewable energy programs and adoption of energy-efficiency measures
- Resource substitutes/diversification

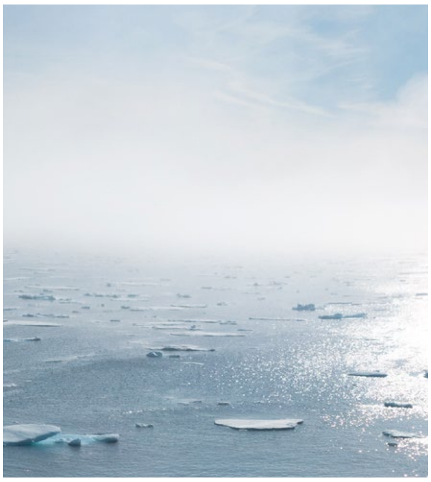
10 top tips to get started

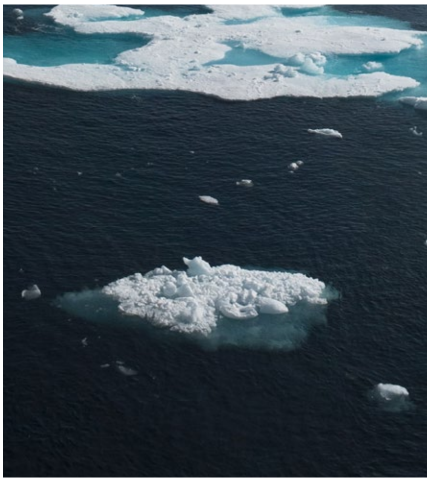
01

Start the climate risk identification conversation at management and board level.

02

Ensure governance structures are put in place involving risk, finance, legal and sustainability leads. Consider a board subcommittee responsibility within the senior leadership team. Climate change risks are likely to impact throughout the business, so you need broad buy-in and expertise.



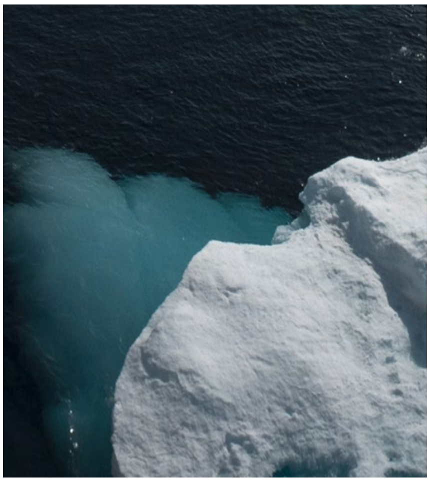


03

Identify the top risks and opportunities to your business, and conduct workshops to identify risk management (including both climate change mitigation and adaptation) strategies.

04

Think beyond regular business cycles to potential long-term risks and opportunities.



05

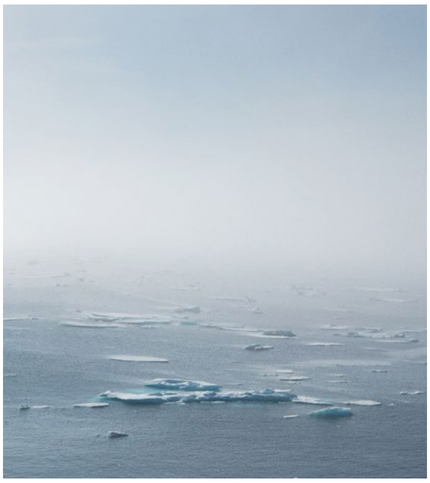
Re-evaluate those risks as information changes, particularly taking into account government policy response in H2 2021 to the Climate Change Commission's final advice.

“Management of climate risk is not about compliance: understanding climate risk is key to mid to long-term strategy and resilience.”

Nicola Swan, Partner

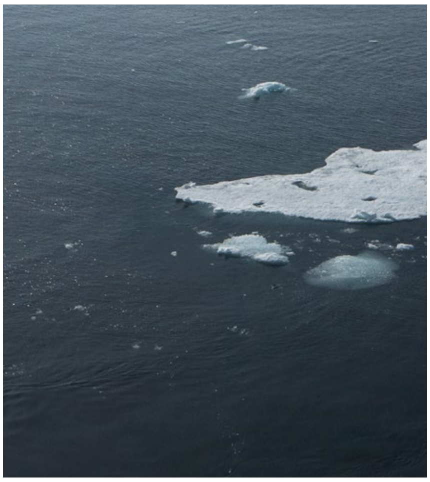
06

Consider actions your business could take now to reduce its exposure to physical, legal and commercial risks.



07

Identify which metrics you will likely need to report on: greenhouse gas emissions emissions, cost impacts, emissions intensity of portfolio, value of assets facing high risk exposure etc. in order to identify key records.



08

Identify what records you will need to produce annual Climate Statements for FY22 – 23. Identify missing data and develop roadmaps to close data gaps.

09

Report, and ensure it is consistent: check that material climate-related risks are being disclosed alongside other material risks and to the same extent.

10

Learn the lessons from climate-related reporting to take opportunities for your business – this is not compliance but change management.

Managing climate risk in New Zealand – a tool kit for directors 2020

Practical advice covering key issues for directors, baselines for identification and management of climate risk.

SCAN TO VIEW THE TOOL KIT

International updates

New Zealand is leading the world in introducing mandatory climate-related disclosures across a broad range of entities.

Category 1 – Mandatory OR comply or explain disclosures coming in across the economy by 2025

Mandatory climate-related disclosures for listed issuers, and large banks, insurers and fund managers by **FY2022 – FY2023**.

For **reporting periods beginning 1 January 2021**, all **premium listed** FTSE companies are required to report in line with the TCFD recommendations on a **comply or explain** basis. The **FCA is currently consulting** on (1) **extending this listing rule to a wider scope of listed issuers** and (2) TCFD implementation measures for **asset managers, life insurers and FCA-regulated pension providers.** Rules are expected to be brought in by 2022. Consultation is also underway on TCFD reporting requirements for large private companies.

Since 2018, the EU Non-Financial Reporting Directive has required reporting by large entities of sustainability risks and impacts. However, the quality and comparability of the reporting has been inconsistent. In **March 2021**, the **EU Sustainable Finance Disclosure Regulation** came into force requiring **mandatory environmental, social and governance (ESG) disclosures by certain financial market participants** on a **comply or explain** basis.

The Corporate Sustainability Reporting Directive obliges companies to report in compliance with the European Commission's sustainability reporting **standards expected by October 2022**. This will cover all large companies and all companies listed on EU regulated markets and expand current reporting entities **from approximately 5,000 to at least 35,000 large companies**, and **up to 100,000 businesses** if high-risk medium sized companies are included.

From **2022-23**, the Securities and Exchange Board of India will require the **top 1000 listed entities to disclose material ESG risks and opportunities**, planned mitigation steps, sustainability-related goals and the progress towards them, and other environmental disclosures including greenhouse gas (GHG) emissions.

From **April 2022, listed issuers** on the Tokyo Stock Exchange will be required to disclose in accordance with TCFD recommendations on a **comply or explain** basis.

In July 2021, Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group announced next steps to advance green finance and climate-related disclosures in Hong Kong. The Group sets out a roadmap for adopting **by 2025** the proposed reporting standard from the IFRS Foundation's Sustainability Standards Board. Since March 2020, the Hong Kong Stock Exchange has provided guidance for voluntary ESG reporting, in line with TCFD recommendations.

Category 2 – Introduction of TCFD-aligned reporting under development but no fixed timeframe for implementation

Congress considering the **Climate Risk Disclosure Act**, which would require issuers of securities to disclose climate-related risks, direct and indirect GHG emissions, fossil fuel-related assets, and mitigation steps.

In **March 2021**, the **Securities and Exchange Commission started a consultation** on introducing climate-related disclosures and supporting regulatory approaches.

Since 2016, the Singapore Exchange has had mandatory sustainability reporting in its **Listing Rules**, with reporting on a **comply or explain** basis.

In May 2021, a Monetary Authority of Singapore financial industry taskforce issued guidance on climate-related disclosures aligned with TCFD recommendations. The taskforce has also published guidance on Environmental Risk Management for banks, asset managers and insurance companies, as well as a handbook of practical tips for implementation.

In February 2020, the Governance Institute of Australia released a practical guide for climate change risk disclosure, aligned with TCFD recommendations, as part of the **ASX Corporate Governance Council's** Corporate Governance Principles and Recommendations.

In February 2021, **ASIC** identified disclosing and managing climate-related risks as a key investor responsibility and **has published guidance on climate-risk disclosure**.

In **April 2021, APRA** released for **consultation** its CPG 229 **draft guidance** to banks, insurers and superannuation trustees **on managing the financial risks of climate change**.

Category 3 – Disclosure requirements or guidance, but limited scope

The Swiss Financial Market Supervisory Authority now requires **large banks and insurance companies** to provide qualitative and quantitative information on the consequences of climate change.

From 2022, Canadian Crown corporations with assets over $1b will begin annual climate-related financial disclosure. A Sustainable Finance Action Council has been established to consider disclosure rules for the private and public sector.

Separately, **Ontario** requires **certain types of businesses and industrial facilities** to **report and verify their GHG emissions annually** to the Ministry of Environment, Conservation and Parks.

Category 4 – Mention of climate reporting, but no timeframes

In **June 2021**, the People's Bank of China, China's central bank, announced its **aim to introduce mandatory climate reporting**, after developing a uniform disclosure standard and **testing it with some commercial banks and listed companies.**

Key contacts

Bevan Miles

Partner and CT Consulting lead

T: +64 9 357 8986
E: bevan.miles@chapmantripp.com

Nicola Swan

Partner
Litigation and climate risk

T: +64 4 498 6389
E: nicola.swan@chapmantripp.com

Alana Lampitt

Senior Associate

T: +64 27 390 5890
E: alana.lampitt@chapmantripp.com

Daniel Street

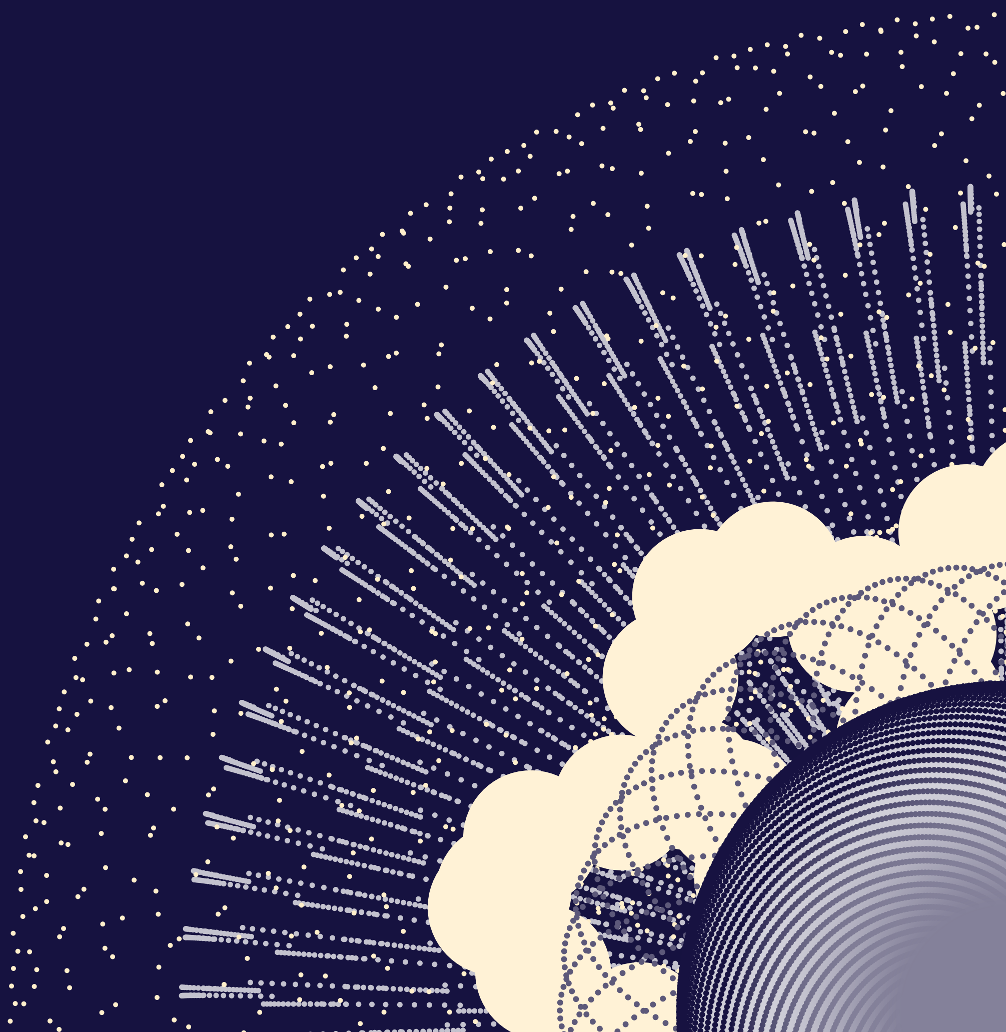
Senior Associate

T: +64 9 357 9071
E: daniel.street@chapmantripp.com

There is no better time to start preparing than now.

Every business can start the conversation internally, consider how they will assess their business' risks and opportunities, and plan what information they will need for climate reporting.

If you need help on getting started,
or testing your preparations,
we can assist.



Chapman Tripp is a dynamic and innovative commercial law firm at the leading edge of legal practice. With offices in Auckland, Wellington and Christchurch, the firm supports clients to succeed across industry, commerce and government. Chapman Tripp is known as the 'go to' for complex, business-critical strategic mandates across the full spectrum of corporate and commercial law. Chapman Tripp's expertise covers mergers and acquisitions, capital markets, banking and finance, restructuring and insolvency, Māori business, litigation and dispute resolution, employment, health and safety, government and public law, privacy and data protection, intellectual property, media and telecommunications, real estate and construction, energy, environmental and natural resources, and tax.

AUCKLAND
Level 34, PwC Tower
15 Customs Street West
PO Box 2206, Auckland 1140
New Zealand
T: +64 9 357 9000

WELLINGTON
Level 17
10 Customhouse Quay
PO Box 993, Wellington 6140
New Zealand
T: +64 4 499 5999

CHRISTCHURCH
Level 5
60 Cashel Street
PO Box 2510, Christchurch 8140
New Zealand
T: +64 3 353 4130

chapmantripp.com