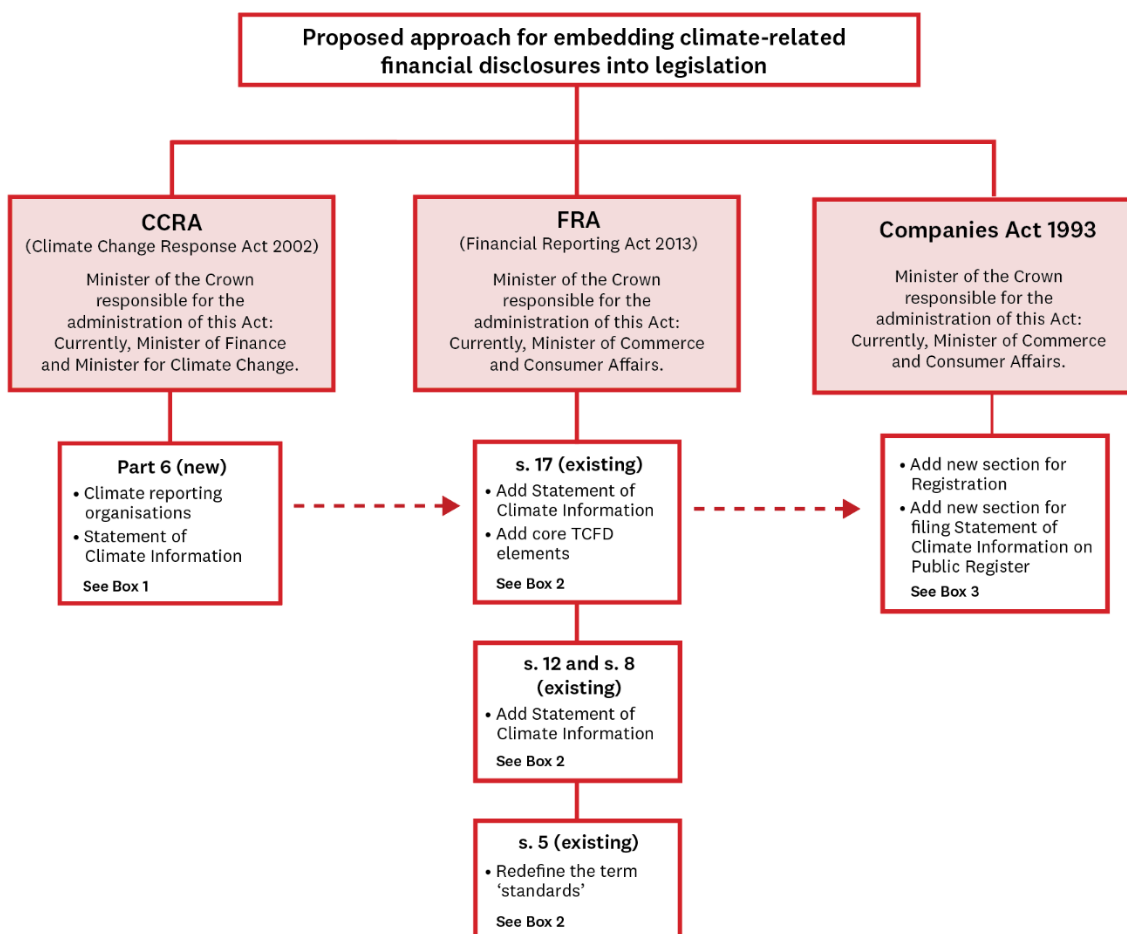


Submission

Climate-related financial disclosures
Understanding your business risks and opportunities related to climate change
NZ Government Discussion Document

December 2019

PART ONE: SUMMARY

1.1 Introduction

Thank you for the opportunity to respond.

This is a complex and fast-moving area of public policy. To understand our high-level recommendations, please see Figure 2, followed by grey boxes 1, 2 and 3 (on pages 6, 60, 74 and 77 respectively). Importantly this approach works with and builds on the recent changes to the Climate Change Response Act 2002 and proposes a regime that would apply to both the public and private sector.

We apologise in advance for our approach and any resultant repetition. Our aim was to put forward the best design rather than what may be the most palatable for some stakeholders. The first four parts of this submission could be considered our working and thinking. Part 5 is our response to the specific questions. A list of abbreviations is also provided at the end of this document.

The McGuinness Institute has been researching climate-related financial reporting for the past two years. In our October 2019 *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study (Discussion Paper 2019/01)* we concluded that, in terms of climate-related disclosures, there is a significant gap between what users want and what preparers currently provide. This was evidenced by surveys and primary research undertaken by the Institute in New Zealand, and by reviewing a range of secondary research and literature from New Zealand and overseas. This work is not evidenced in this submission as it is referred to in *Discussion Paper 2019/01*, which is attached to this submission. However, we do evidence our recent research and other developments that have occurred between October 2019 and December 2019. This is an area where events are moving very fast.

In making this submission, we acknowledge we have gone beyond responding to the questions posed in the Ministry for the Environment (MfE)/Ministry of Business, Innovation and Employment (MBIE) *Discussion Document* (the *NZ Government Discussion Document*). Our submission is premised on the Task Force on Climate-related Financial Disclosures (TCFD) framework being implemented and made mandatory in New Zealand. Given our research, we put forward our thoughts on the best way to embed TCFD principles and processes into New Zealand legislation without directly specifying 'TCFD' in law, who should undertake the standard and guidance setting, and who should be responsible for compliance. In our view, it is critically important that we make climate-related financial disclosures part of normal business practice. This means extending the role of existing standard-setters and compliance providers to ensure that New Zealand has a sound and trusted investment market that delivers financial stability and a climate information ecosystem that delivers suppliers, consumers, employees, consumers, policy makers, and citizens information that they can trust.

New Zealand has a complex and – in some areas – outdated reporting infrastructure (such as no detailed definition of the content or requirement to file directors' reports). Next year the Institute will publish our *Project 2058* report *Report 17 – Building a Reporting Framework Fit for Purpose*. In our view, the current complexity is another reason why we should continue to work with the current system and retain the status quo. Although complex, preparers know where to go for guidance on financial reporting (the XRB)

and users know where to complain (for example, the FMA).[1] We would like to see a strengthening of these organisations (which will require additional funding) and, in some cases, greater clarity over their purpose and role.

Lastly, although as a result of our research we have become advocates of the TCFD, we believe the TCFD should not be mentioned in legislation. New Zealand has never mentioned international standards or international standard setters in legislation (such as IASB or IAASB). Instead the legislation refers to 'generally accepted accounting practice' (see, for example, s 8 of the Financial Reporting Act 2013). We consider TCFD has become 'generally accepted accounting practice' and that a *Statement of Climate Information* (our preferred term) is a 'report', as referred to in s 8 of the Financial Reporting Act 2013. This would mean the XRB would not need to use TCFD if, in the future, another standard (such as the IASB) issued a better standard that became more generally accepted.

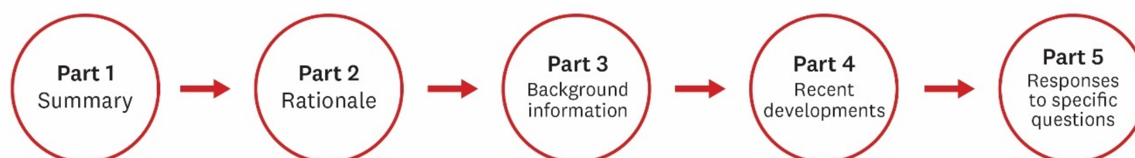
Importantly, the TCFD relates to financial disclosures and as such would fit better as a financial reporting standard. However, to strengthen this in legislation, we suggest making changes to s 17 of the Financial Reporting Act 2013 to make clear a non-financial standard is also a possibility. In our view, the distinction between financial and non-financial data is an increasingly flawed concept. The detail is explained in this submission, but if you would like a quick overview of our thinking, we suggest you refer to Boxes 1–3 (in grey) contained in this submission.

Our submission is structured in five parts (see Figure 1 below). Part One (this section) summarises our approach and recommendations. Part Two sets out our rationale and aims to provide a wider context that we believe is relevant to consider in terms of finding the best way forward and Part Three supports Part Two, adding further background information. Part Four illustrates how fast this area of research and policy development is moving and, most importantly, how the needs of primary users are evolving. We list recent publications since our *Discussion Paper 2019/01* was published in October 2019 and highlight interesting observations and research findings. Part Five contains responses to the specific questions in the *NZ Government Discussion Document*. We found it easier to set out our preferred approach before answering the questions.

Appendices include:

Appendix 1: Authors
Appendix 2: Review of the possible location of TCFD disclosures within the current reporting system
Appendix 3: An overview of legislative options

Figure 1: Overview of this submission



[1] See https://www.fma.govt.nz/contact/make-a-complaint

1.2 Key recommendations

Our overarching recommendation is that MfE and MBIE should develop a proposed strategy for determining which entities should be required to make mandatory climate-related financial disclosures and when they should be required to do so. We appreciate that the *NZ Government Discussion Document* and the resulting consultation aims to contribute to this objective. Our specific recommendations are:

1. Use the existing legislative and financial reporting frameworks for determining who has to disclose climate-related financial disclosures and what they have to disclose (in this case to prepare, publish and file a *Statement of Climate Information*);[2]

2. Require public entities and private entities to report on climate change mitigation and adaptation using the same reporting framework and applying the same standards and guidance;

3. Implement a reporting framework as follows:

   Who: Require the following groups of entities, which we have called 'external climate reporting organisations', to disclose a *Statement of Climate Information* in their annual report:

   Group 1: Participants of the New Zealand Emissions Trading scheme (ETS) (under s 54 of the Climate Change Response Act 2002) (Section 2.2.1);
   Group 2: CCRA reporting organisations (under s 5ZW of the Climate Change Response Act 2002 [CCRA]) (Section 2.2.2); and
   Group 3: XRB Tier 1 for-profit entities and public benefit entities (Section 2.2.3).

   What: Require a *Statement of Climate Information* to be signed by two directors and be audited. See Section 2.3.

   When: Require an annual *Statement of Climate Information* for all 'external climate reporting organisations'. See Section 2.4.

   Where: Require the *Statement of Climate Information* to be located in the annual report and for the annual report to be filed for selected entities on the Companies Register. This will require the Companies Register to be extended to enable all entities (including public sector entities) to be required to publish a *Statement of Climate Information* (our preferred term), to also file on a Register. Our preference is that the Companies Register be extended, but a case could be made for a separate Crown Register. See Section 2.5.

   Why: Require a clear purpose and an understanding that the benefits exceed the costs for primary users and other stakeholders. Primary investors, wider stakeholders and government need timely,

[2] Note: Throughout this paper we have used the term *Statement of Climate Information* instead of *Statement of Climate Change* as we consider it to represent a more durable and more accurate title. Reasons include:
(i) The climate will be undergoing a great deal of change and we believe change will be the new norm, hence the word change will become less relevant. For example, people are already referring to the 'Climate Commission' (rather than the Climate Change Commission).
(ii) Users want to know a range of information specific to the entity – how the entity is being impacted by the climate and how the entity is impacting the climate. With the user in mind, the *Statement of Climate Information* makes more sense and enables a deeper and more integrated discussion about what information an investor needs and/or might want to know.

reliable, useful and comparable information over the risks and opportunities that exist now and in the future. See Section 2.6.

How: Require the XRB to prepare a NZ TCFD-based reporting standard and assurance standard (as well as guidance) for all 'external climate reporting organisations'. See Sections 2.7 and 2.8.

4. Amend the following legislation in order to implement the recommendations above:

(i) Climate Change Response Act 2002 – Include a new Part 6;

Include a new Part 6 to require 'external climate reporting organisations' to

- disclose an audited annual *Statement of Climate Information*;
- require the *Statement of Climate Information* to be prepared in compliance with a reporting standard and assurance standard prepared by the XRB; and
- to require the *Statement of Climate Information* to include the four core elements of the TCFD framework (governance, strategy, risk management and metrics and targets). See grey Box 1on page 60.

(ii) Financial Reporting Act 2013 – Amend s 5, s 12 and s 17;

- amend the definition of 'financial reporting standard' to include a non-financial reporting standard;
- amend s 12 to include the requirement for a *Statement of Climate Information*; and
- invoke s 17(2) to allow the External Reporting Board (XRB) to set a non-financial reporting standard for the *Statement of Climate Information* (that includes the four core elements of the TCFD framework).
  See grey Box 2 on page 74.

(iii) Companies Act 1993 – Add a new section to require the *Statement of Climate Information* to be registered on the Companies Register.

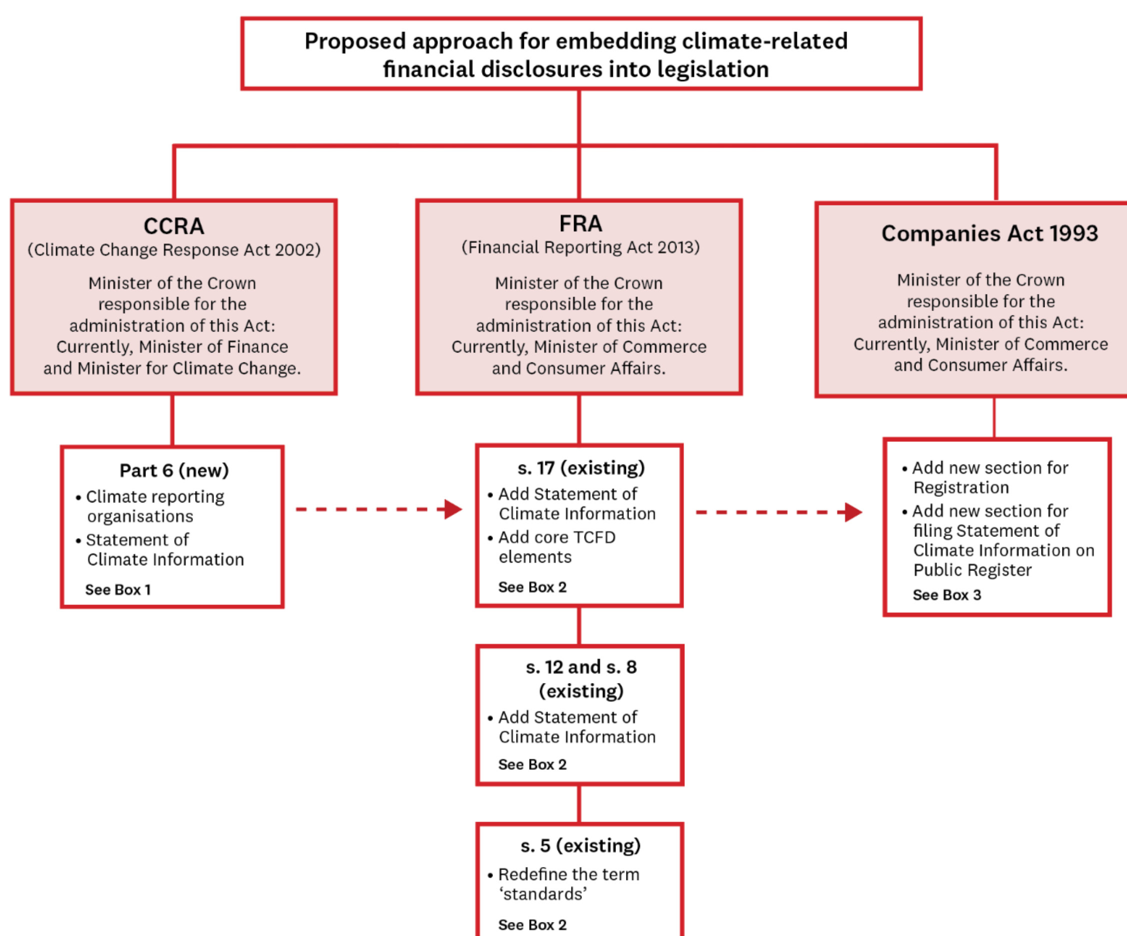
See grey Box 3 on page 77.

Our approach draws a distinction between (i) those that establish the climate change disclosure obligations (i.e. the Minister for Climate Change and/or the Climate Change Commission) and (ii) the entity that initiates those requirements by providing standards, guidance and/or other pronouncements for preparers (i.e. the XRB). This means both the Minister for Climate Change and the Minister of Commerce and Consumer Affairs together would ensure the needs of users (in particular, primary users such as investors), preparers, assurance providers and regulators are met.[4] We believe the XRB has the best expertise in terms of delivering trusted external reporting standards, assurance standards and guidance across both the public and private sectors.

[4] Note: Under our suggested approach, the specific regulations provision s 5ZX of the Climate Change Response Act 2002 would remain as it enables the Climate Change Commission or the Minister of Climate Change to require urgent one-off information or confidential information from selected organisations for their use, or where other international information requirements such as agreements, treaties or mechanisms are required to meet international information requirements.

The Institute considered a range of alternative approaches. We believe the solution, set out in Figure 2 below and detailed throughout this submission, provides investors, directors, chief executives and other stakeholders with the best tools to manage climate-related financial risks and maximise opportunities and, at the same time, provides New Zealand policy makers, regulators and citizens with the most cost-effective, durable and flexible framework in the short to medium-term. Importantly, our proposed solution embeds the TCFD principles and processes into law, but not the TCFD directly (therefore allowing a certain degree of flexibility).

Figure 2: Proposed approach for embedding climate-related financial disclosures into legislation



1.3 Accompanying documents

As noted earlier, this submission draws on our recently published *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study* and previous Institute publications. These are set out below:

1. *TCFD Survey* (December 2019);
2. *Oral Submission to Select Committee on the Climate Change Response (Zero Carbon) Amendment Bill* (November 2019);
3. *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand Case Study* (October 2019);

4. *TCFD Strategy Exercise* (October 2019). This was prepared for the TCFD workshops hosted with Simpson Grierson and held in Auckland and Wellington in October. Photos of the completed exercises can be found on our website, under Publications/Exercises;
5. *Working Paper 2019/06 – Analysis of Climate Change Reporting in the Public and Private Sector* (September 2019);
6. *Working Paper 2019/05 – Reviewing Voluntary Reporting Frameworks Mentioned in 2017 and 2018 Annual Reports* (September 2019);
7. *Think Piece 32 – Exploring Ways to Embed Climate Reporting in the Existing Framework* (September 2019);
8. *GDS Index* and *Handbook* (in particular the climate change strategy wheel) (May 2019); and
9. *Working Paper 2018/01: NZSX-listed Company Tables (March 2019).*

Additionally, the Institute is undertaking further research in the area:

10. *Working Paper 2020/01: 'Directors' Report' Legislative Requirements: A review of New Zealand and other selected Commonwealth Jurisdictions* (in press); and
11. *Report 17 – Building a Reporting Framework Fit for Purpose* (in press).

PART TWO: RATIONALE

This section provides the rationale for our responses to the 41 questions in Part 5 of this submission.

2.1 Principles driving our recommendations

It is important that a climate-related financial reporting regime and framework is:

1. Simple, coherent and easy for preparers to apply and for investors to understand and trust;
2. Cost-effective – provides value in terms of (i) the costs of preparation, assurance, compliance and regulation and (ii) the urgency in addressing the challenges we face as a country and as a planet; and
3. Durable and 'future-proofed' – stands the tests of time by balancing certainty with the necessary flexibility to deliver on its purpose for preparers and users of climate-related financial disclosures.

Given the above principles, the Institute suggests that the framework should:

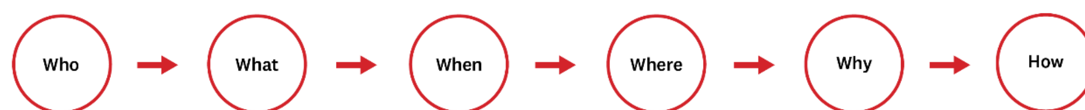
1. Require mandatory reporting for selected entities where the benefits of disclosure outweigh the costs of preparing and reporting;
2. Set out a clear purpose for the framework which outlines what disclosures an entity must comply with and why;
3. Build on existing legislative and external reporting frameworks, design features and terminology;
4. Utilise New Zealand's international standing in standard-setting. New Zealand, through the XRB and Office of the Auditor-General (OAG), has world-leading and proven reporting and assurance standard capabilities and expertise;
5. Utilise the expertise of the XRB, with a view to the XRB developing domestic standards to support entities to meet legislative requirements. Examples of these precedents include the domestic accounting standards FRS 42 *Prospective Financial Statements* (to support the preparation of council's long-term plans under the Local Government Act 2002) and FRS 48 *Service Performance Reporting* (to support the preparation of a statement of performance under the Crown Entities Act 2004). The XRB has also issued domestic standard NZ AS 1 *Audit of Service Performance Information* for the assurance of the statement of performance;
6. Align the reporting requirements of both the public and private sectors. This will not only benefit investors by providing comparable information across both sectors and other primary users, but will also benefit preparers and assurance providers as they move between the public and private sectors; and
7. Allow entities that are not subject to mandatory reporting to report voluntarily and to file their report in the same location as mandatory reporting entities. There will be reputational advantages of reporting in terms of attracting/retaining staff and growing supplier and customer loyalty, and these advantages should be made available to all other entities (e.g. small and medium-sized entities [SMEs] and other large private entities).

In addition to the above, the framework should allow for a carbon tax to be implemented cost-effectively in the near future (i.e. future proofing). In our view, and in the view of many international economists, a carbon tax will be an essential mechanism to deliver a just transition to a low-carbon future. It is therefore timely to use this opportunity to create a simple and effective method of reporting and assuring emissions to build the base infrastructure for a carbon tax. The resulting tax revenue would ideally be earmarked for

innovation grants to be distributed back to taxed companies, which in turn could help them and their staff make an effective and just transition. Adopting an internal carbon price (ICP) is emerging best practice (see discussion in Section 2.8 (ii) of this submission).

The remainder of the section aims to describe our recommended framework by answering the six key questions: who, what, when, where, why and how. Although you have not asked for this level of detail, we felt that given the work we have done over the last few years, the answers to these questions may provide a useful background and context for exploring ways to insert a TCFD framework in New Zealand. Section 8.1.1 of *Discussion Paper 2019/01* suggests that a new framework requires a careful re-evaluation and consideration of the 'who', 'what', 'when' and 'where' of climate reporting (see pages 93–99 of the discussion paper). We build on this approach here, and add the important 'how' and overlay the 'why' as part of the rationale below. See Figure 3 overleaf.

Figure 3: The Five 'Ws' and the one 'H'



We recommend:

Who: Require the following groups of entities which we have called 'external climate reporting organisations' to disclose a *Statement of Climate Information* in their annual report:

> Group 1: Participants of the New Zealand Emissions Trading scheme (ETS) (under s 54 of the Climate Change Response Act 2002) (Section 2.2.1);
>
> Group 2: CCRA reporting organisations (under s 5ZW of the Climate Change Response Act 2002 [CCRA]) (Section 2.2.2); and
>
> Group 3: XRB Tier 1 for-profit entities and public benefit entities (Section 2.2.3).

What: Require a *Statement of Climate Information* to be signed by two directors and be audited. See Section 2.3.

When: Require an annual *Statement of Climate Information* for all 'external climate reporting organisations'. See Section 2.4.

Where: Require the *Statement of Climate Information* to be located in the annual report and for the annual report to be filed for selected entities on the Companies Register. This will require the Companies Register to be extended to enable all entities (including public sector entities) to be required to publish a *Statement of Climate Information* (our preferred term), to also file on a Register. Our preference is that the Companies Register be extended, but a case could be made for a separate Crown Register. See Section 2.5.

Why: Require a clear purpose and an understanding that the benefits exceed the costs for primary users and other stakeholders. Primary investors, wider stakeholders and government need timely, reliable, useful and comparable information over the risks and opportunities that exist now and in the future. See Section 2.6.

How: Require the XRB to prepare a NZ TCFD-based reporting standard and assurance standard (as well as guidance) for all 'external climate reporting organisations'. See Sections 2.7 and 2.8.

2.2 Who: Who should report? (See Q8, Q21, Q22, Q23)

A term like 'external climate reporting organisations' (a term we use in this submission) or similar should be defined in legislation. The law should state who should report (see this section) and what should be reported (see Section 2.3) and the XRB should state how it should be reported (see Section 2.7).

We propose the following three groups should become external climate reporting organisations.

Group 1: Participants of the New Zealand Emissions Trading scheme (ETS) (under s 54 of the Climate Change Response Act 2002) (Section 2.2.1);

Group 2: CCRA reporting organisations (under s 5ZW of the Climate Change Response Act 2002 [CCRA]) (Section 2.2.2); and

Group 3: XRB Tier 1 for-profit entities and public benefit entities (Section 2.2.3).

In selecting these three groups, we make the following observations:

Note 1: We suggest a tentative list of probable entities for each group to ensure that, when combined, all key entities that the government thinks should report, will be required to report. For example, private companies that import and/or export large quantities of products/assets by air, entities that lay large quantities of concrete and/or entities that are major energy users (e.g. Scope 2) may be missed, in which case a fourth group might need to be added or the types of entities covered by one of the three groups extended.

Note 2: The order we have selected for determining who is or is not an 'external climate reporting organisation' is important. For example, if not group 1, does the organisation fit under group 2? If not group 1 or group 2, does the organisation fit under group 3? We expect some large 'For-Profit public sector entities' and a few 'for-profit higher accountability' entities will meet the thresholds in group 1 and/or group 2, before meeting the threshold in group 3. The order provides a range of opportunities:

- Each group's *Statement of Climate Information* could move from voluntary to mandatory over different time periods.
- Each group's *Statement of Climate Information* could require assurance over different time periods. For example, you could stage assurance by requiring groups 1 and 2 to have their *Statements* assured and then require assurance for group 3 (Tier 1 reporters) at a later date.
- Each group could be penalized for failure to meet the requirements of a *Statement of Climate Information* over different time periods. For example, different penalties for different groups of entities.
- Exemptions and extensions could also be made available to different groups.
- Reporting on the quality and extent of implementation could be required for different groups (see for example reporting along the lines of Figure 17 using groups rather than entities).

Note 3: Having a consistent and aligned reporting standard and assurance standard that is designed to meet the needs of all preparers and all users of *Statements of Climate Information* will deliver a number of benefits in terms of cost-effectiveness, certainty and flexibility. Resources can be adapted (not replicated) and lessons learnt can be shared (not repeated). We see the XRB as having the necessary expertise to provide standards across the wider range of entities that we have defined as 'external climate reporting organisations'.

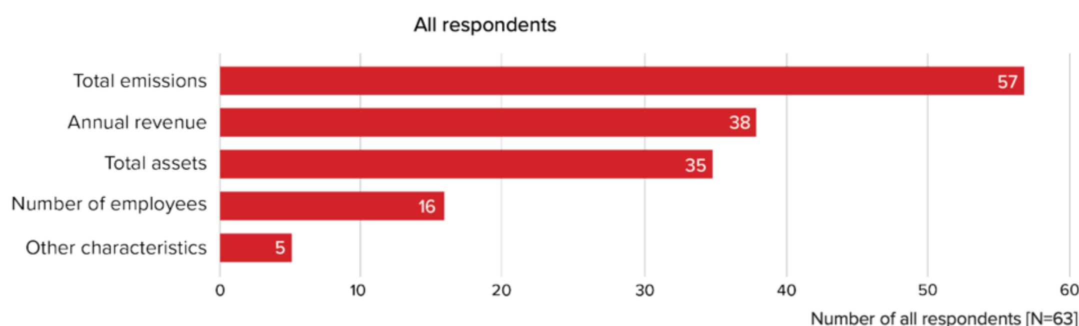
Below we discuss each of the three groups we consider should be required to report against the core elements of the TCFD.

2.2.1 Group 1: Participants of the New Zealand Emissions Trading scheme (ETS)

We recommend that participants of the New Zealand Emissions Trading Scheme (ETS), as set out in s 54 of the Climate Change Response Act 2002, be required to disclose an audited annual *Statement of Climate Information*.

This view is supported by the results of the *TCFD Survey* conducted by the Institute. The results indicated a mix of characteristics should be considered, but that emissions are the most important (indicated by over 90% of respondents); see Figure 4 below.

Figure 4: Characteristics considered to be most important for determining the application of a possible mandatory (comply-or-explain) TCFD reporting requirement[5]



Other reasons for supporting this recommendation are as follows:

- Large carbon emitters are already specified and identified in legislation. See s 54 of Climate Change Response Act 2002.
- Large carbon emitters are already preparing and completing a GHG inventory. This is being filed with the EPA in confidence. Proposed changes indicated in the May 2019 *Cabinet Paper: New Zealand Emissions Trading Scheme tranche two: Improving transparency* that data from 2020 will be made public in 2021.[6]
- New Zealand has a range of interdependencies that are not well understood, and TCFD reporting will help make them more apparent;
- New Zealand may decide to introduce a carbon tax, in which case heavy emitters will be affected the most and paying the majority. For this reason, helping these entities to prepare audited data for tax

[5] Page 3, *TCFD Survey 2019*. See http://www.mcguinnessinstitute.org/surveys

[6] Para 23. See https://www.mfe.govt.nz/sites/default/files/media/Climate%20Change/cabinet-paper-improving-transparency.pdf

purposes encourages consideration of other types of low-emissions business models and will help them prepare for a just transition.

We suggest all participants of the ETS should prepare an audited *Statement of Climate Information* (i.e. applying the TCFD disclosures) and that this information should be 'filed' on the Companies Register. This means:

1. If the entity is 'required to prepare' an annual report under s 211 of the Companies Act 1993, then the audited *Statement of Climate Information* (i) should form part of their annual report and (ii) their annual report should be 'filed' on the Companies Register within 5 months after the balance date of the company (along the lines of s 207E of the Companies Act 1993).
2. If the entity is not required to prepare an annual report, their audited *Statement of Climate Information* (i) should be 'filed' against their legal name on the Companies Register as a separate document within 5 months after the balance date of the company and (ii) the *Statement* should be signed by two directors (as currently required under s 211 of the Companies Act 1993).
3. If the auditor's report indicates that the requirements have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and any other supplementary information to the Registrar and the External Reporting Board (along the lines of s 207C of the Companies Act 1993).[7]

2.2.2 Group 2: CCRA reporting organisations under the Climate Change Response Act 2002

We recommend the reporting entities (listed in s 5ZW below) be included because they are required to provide TCFD based information on request. Requiring them to mandatory report a *Statement of Climate Information* will ensure integration of climate information from both the public and private sectors.

Excerpt: Climate Change Response Act 2002

Section 5ZW: Minister or Commission may request certain organisations to provide information on climate change adaptation

(8) For the purposes of this section and section 5ZX, the following are reporting organisations:
(a) the Public Service, as defined in section 27 of the State Sector Act 1988:
(b) local authorities, as defined in section 5(1) of the Local Government Act 2002:
(c) council-controlled organisations, as defined in section 6(1) of the Local Government Act 2002:
(d) Crown entities, as defined in section 7(1) of the Crown Entities Act 2004, but excluding school boards of trustees:
(e) companies listed in Schedule 4A of the Public Finance Act 1989:
(f) organisations listed in Schedule 1 of the State-Owned Enterprises Act 1986:
(g) lifeline utilities listed in Schedule 1 of the Civil Defence Emergency Management Act 2002:

[7] Companies Act 1993
207B Auditor must report to shareholders
(1) The auditor of a company must make a report to the shareholders on the financial statements or group financial statements audited by the auditor.
(2) The auditor's report must comply with the requirements of all applicable auditing and assurance standards.
(3) Subsection (2) is subject to s 207A(3).
207C Auditor's report must be sent to Registrar and External Reporting Board if requirements have not been complied with
If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements or group financial statements to which it relates to the Registrar and the External Reporting Board.

(h) the New Zealand Police:
(i) the New Zealand Defence Force.

2.2.3 Group 3: XRB Tier 1 for-profit entities and public benefit entities

We recommend that entities that come under Tier 1 be required to report climate-related financial disclosures.[8] This is because these entities are systemically important entities and many participate in the financial markets.[9] Tier 1 for-profit entities and public benefit entities under the XRB's Tier Structure are similar to the entities that the TCFD recommends. Section 2.7 should be read in conjunction with this section if you are not fully aware of the way the existing framework operates in practice.

The conclusions we draw from our *Discussion Paper 2019/01* is that the size and impact of an entity is important, therefore mandatory reporting for ETS participants (see Section 2.2.1 of this submission) and the list of mostly public sector entities in the Climate Change Response Act (see Section 2.2.2 of this submission) will not be sufficient – primary users and other stakeholders will require significant private sector entities to report as well. To be useful, cost-effective and consistent, the general approach should be to seek out types of entities with large Scopes (1–3), vulnerable business models and/or able to contribute to the transition through better and more robust business models and infrastructure. However, this will be hard, hence requiring entities to report against TCFD will help highlight which entities should report – as the materiality aspect of reporting comes into play.

It seems clear that a regime requires careful thinking in order to ensure all key players that should report against TCFD do so. The use of the existing legislative and external reporting framework (managed by the XRB) is recommended because the TCFD is a 'financial' disclosure. Using the existing framework is further supported for the following reasons:

- It is simple, coherent and will be easier, quicker and more cost-effective to implement than to design and implement a separate and new reporting structure.
- It is established and well-understood. Entities that are subject to reporting under existing law are clear on their current position in the framework and which tier they fall under.
- It retains a degree of flexibility. The law only includes the principles-level core elements and the method (i.e. standards/guidance), enabling prompt amendments and updates by existing bodies as appropriate. In the case of the TCFD recommendations, we suggest the term 'TCFD' is not put in law. This would better enable timely and effective responses to events such as the TCFD changing its name, modifying its disclosures, or the increasing popularity of another protocol.

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[8] Note: There are many combinations of levers that can be explored to determine who should be included in the third group (group 3). We have selected Tier 1 reporters. We did look at 'FMC reporting entities with a higher level of public accountability' (under s 461K of the Financial Markets Conduct Act 2013) as a possible mechanism but decided against this as it seemed unnecessary complex. For this reason and the fact that we consider that simplicity and understandability (in that preparers know if they are Tier 1 or not) were important characteristics, we believe Tier 1 works best.

[9] 'The Task Force developed four widely adoptable recommendations on climate related financial disclosures that are applicable to organizations across sectors and jurisdictions (Figure 1). Importantly, the Task Force's recommendations apply to financial-sector organizations, including banks, insurance companies, asset managers, and asset owners. Large asset owners and asset managers sit at the top of the investment chain and, therefore, have an important role to play in influencing the organizations in which they invest to provide better climate-related financial disclosures.' Pages iii and iv, *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures* (2017). See https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

- It has an established relationship between reporting and assurance, and private and publicly accessible information.

2.3 What: Statement of Climate Information (See Q8)

We recommend that reporting entities be required to prepare and publish a *Statement of Climate Information* that is signed by two directors. In our view, a *Statement of Climate Information* is the simplest way for users to access and assess the climate-related financial risks and opportunities an entity may face.

2.4 When: Statement of Climate Information (See Q11, Q12)

We recommend that the *Statement of Climate Information* be prepared and filed annually for selected entities.

2.5 Where: Placement of Statement of Climate Information (See Q8, Q25, Q26, Q27)

We recommend that the *Statement of Climate Information*:

1. should be treated as a separate report with separate reporting standards (e.g. a NZ TCFD-based standard);
2. should be signed by two directors;[10]
3. should be published in the annual report;
4. should sit within the directors' report of the annual report; and
5. should be filed on the Companies Register (alongside the financial statements). We would argue that the whole annual report should be filed, rather than two separate reports (the *Financial Statements* and the *Statement of Climate Information).* This will require the Companies Register to be extended to enable all selected entities (including public entities) to publish and file a *Statement of Climate Information* (our preferred term) on a Register. See grey Box 3 on page 77.

We consider financial statements to be the key repository of an entity for an entity's material financial information and the annual report to be the key repository for the entity's all other material information, including material non-financial information.

The *Statement of Climate Information* is a way to bring all material climate information together in one place. Importantly, there will be some areas where the same or similar information will need to also sit within the financial statements. We see this as necessary as the purpose of financial statements is different from the purpose of the *Statement of Climate Information.* Notably, we believe entities that produce *Statements of Climate Information* will likely produce better and more accurate financial statements given the processes (in particular the sequential order of the core elements disclosures) contained in the TCFD.

All climate-related matters that affect the 'financial' aspects of an entity should be disclosed within its financial statements, whether this takes the form of financial information or narrative information (e.g., information on risks and risk management).

[10] Note: This would align with the practice in New Zealand of requiring the financial statements to be signed by two directors: 'Your financial statements must be signed by 2 directors, or 1 if the company only has 1 director.' See https://companies-register.companiesoffice.govt.nz/help-centre/financial-reporting/preparing-financial-statements

2.5.1 Background

Financial statements are a representation of an entity's financial position and performance and are intended to provide useful information to a wide range of users to assist in decision-making and demonstrate the entity's accountability for the resources entrusted to it. Information in the primary financial statements, along with other information in the notes, assists users in predicting the entity's future cash flows, particularly in terms of timing and certainty. In our view, climate-related risks will have real financial implications. As such, it is necessary for all climate-related financial information to be included in its financial statements to ensure climate-related risks, impacts and/or opportunities are integrated and taken into account by the entity in presenting its financial statements.

Information of a non-financial nature (for example, governance and strategy matters) should be included in the annual report. Under the current system, the non-financial climate-related information may be found in a diverse number of places in an annual report: the directors' report, management commentary, corporate governance statement or in a separate *Statement of Climate Information* within the annual report (some with links to the financial statements and/or other parts of the annual report as appropriate). See Appendix 2 for a review of the possible location of TCFD disclosures within the current reporting system. In addition to the annual report, we are also seeing non-financial climate-related information being published outside of an annual report. This is making it very difficult for users interested in understanding climate-related risks and opportunities.

2.5.2 Why the directors' report and why filing

It is important to acknowledge recent developments in the UK.

Directors' reports form part of UK companies' filing obligations with the Companies House.[11] UK quoted companies, large unquoted companies and large limited liability partnerships (LLPs) are required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to disclose in their directors' report key information on annual emissions and their intensity ratio (the equivalent requirement in a New Zealand context would cover publicly listed and selected private unlisted companies).[12]

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[11] **4.1: Contents of your company's accounts (UK)**
'Generally, accounts must include:

- a profit and loss account (or income and expenditure account if the company is not trading for profit)
- a balance sheet signed by a director on behalf of the board and the printed name of that director
- notes to the accounts
- group accounts (if appropriate)

And accounts must generally be accompanied by;

- **a directors' report signed by a secretary or director** and their printed name, including a business review (or strategic report) if the company does not qualify as small
- an auditors' report stating the name of the auditor and signed and dated by him (unless the company is exempt from audit).'

[Bold added] See https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts

[12] 'The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 amended the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 to require quoted companies to report information on greenhouse gas (GHG) emissions in their Directors' Reports.' Page 6, *Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance*. See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850130/Env-reporting-guidance_inc_SECR_31March.pdf

The 2018 Regulations came into force on 1 April 2019. In March 2019, the UK Department for Environment, Food & Rural Affairs (DEFRA) and the UK Department for Business, Energy and Industrial Strategy (BEIS) published the *2019 Environmental Reporting Guidelines*, which includes guidance on what is referred to as the Streamlined Energy and Carbon Reporting (SECR) policy.[13] The Carbon Trust, an international consultancy based in London, has stated that the new regulations 'will require an estimated 11,900 companies incorporated in the UK to disclose their energy and carbon emissions'.[14]

We believe that the placement and filing of climate-related information on a Companies Register is best practice. A Companies Register is a well-used and understood instrument for ensuring all users have the same information and that the information is of a very high standard.

2.6 Why: Risks and opportunities

2.6.1 'Culture eats strategy for breakfast'

This well-known phrase acknowledges the importance of culture as a key determinant of progress. Implementing the TCFD will deliver a higher level of accountability, which will help move New Zealand away from a blame culture to one of accountability and innovation. This is best explained by Figure 5 overleaf.

[13] 'The new requirements, imposed by the 2018 Regulations on quoted companies and on large unquoted companies and large LLPs apply to reports for financial years starting on or after 1 April 2019. The table below gives an example of the first financial year for which the relevant Report must comply with SECR for organisations with different reporting year start dates. The first publication of reports which must comply with the 2018 Regulations is therefore expected to be filed with Companies House in 2020 (e.g. those which cover financial years to 31 March 2020).' Page 35, *Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance.* See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850130/Env-reporting-guidance_inc_SECR_31March.pdf

[14] See https://www.carbontrust.com/news/2019/04/secr-uk-business-streamlined-energy-carbon-reporting-framework

Figure 5: The difference between a blame culture and an accountability culture[15]

	Culture of Blame	Culture of Accountability
Believes	People are the problem	People are problem solvers
	Problems are headaches	Problems are learning opportunities
	Admitting weakness is career limiting	We are all still learning
Focused on	Who is wrong	What is wrong
	The individual	The process
	Fault-finding	Fact-finding
	The past	The future
	Assigning punishment	Improving future results
Results in	Making assumptions	Considering alternatives
	Hoarding decision-making authority	Delegating decision-making authority
	Hiding problems	Surfacing problems and solutions
	Finger-pointing and CYA behaviour	Learning from mistakes
	Distrust	Trust
	Turf wars	Cross-functional cooperation
	Risk adverse	Calculated risk taking
	Wait until told	Taking initiative
	Lack of innovation	Innovation

2.6.2 Opportunities are bigger than the risks

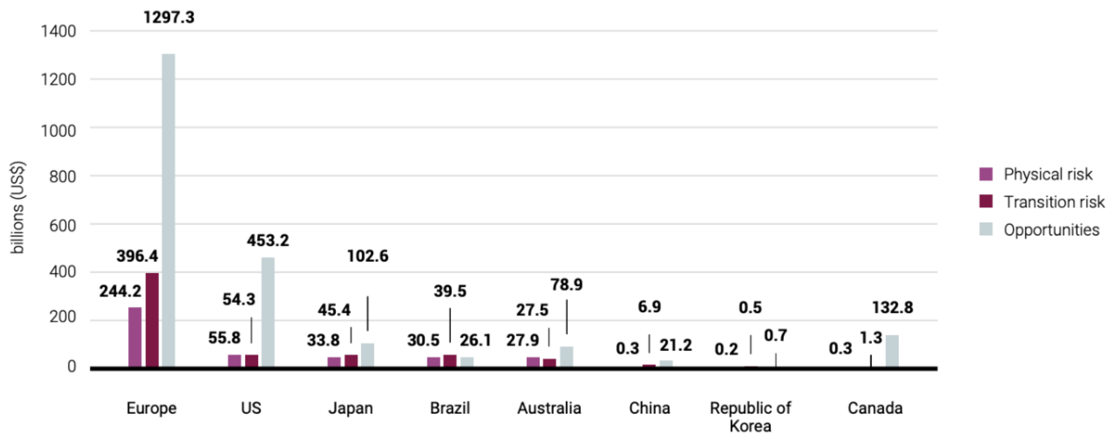
CDP, an international non-for-profit who works with companies around the world to publicly disclose the risks and opportunities that climate change could create for their businesses, published a research report in June 2019. The report, *Major Risk or Rosy Opportunity: Are companies ready for climate change?,* found that potential opportunities are bigger than potential risks and that differences over perceived risks and opportunities varied significantly between countries and regions (see Figure 6) and that the finance sector is seeing more implications than the real economy (see Figure 7). The report states:

> In an analysis of 500 of the world's biggest companies by market capitalization (G500) where 215 companies (representing US$16.95 trillion in market cap) provided estimations of the **potential financial implications for a proportion of their reported risks, CDP found just under a trillion dollars (~US$970 billion) at risk.** Over half of these risks were reported as 'likely / very likely / virtually certain' and are likely to materialize in the short- to medium-term (around five years or earlier). **Approximately US$250 billion of this figure is linked to asset impairments or write-offs** ('stranded assets') as a result of both transition and physical risks.
>
> [In contrast …]
>
> 225 of the world's 500 biggest companies reported **climate-related opportunities** represented **potential financial impacts totalling over US$2.1 trillion dollars.** The majority of this impact is driven by the potential increase in revenue due to demand for low emissions products and services, as well as the potential for a better competitive

[15] See https://availleadership.com/culture-of-accountability

position against shifting consumer preferences. Almost all of these opportunities are reported to be likely, very likely or virtually certain, with the majority materializing in the short- to medium-term. [Bold added][16]

Figure 6: Potential financial impacts of climate-related risks verses opportunities[17]



The report also found:

The overwhelming majority of potential financial implications from both transition and physical risks were reported by companies in Europe, at ~US$640 billion in total, with transition risks accounting for almost US$400 billion. This is unsurprising given the increasing policy alignment with the Paris Agreement in this region and changing market dynamics. **It is however surprising though that companies headquartered in the United States are only reporting a potential financial impact of just over $110 billion, given that this represents the analysis of 81 companies who make up the highest proportion of companies in the sample**. Investors and policymakers would do well to focus on driving up better risk management by companies headquartered in the country.

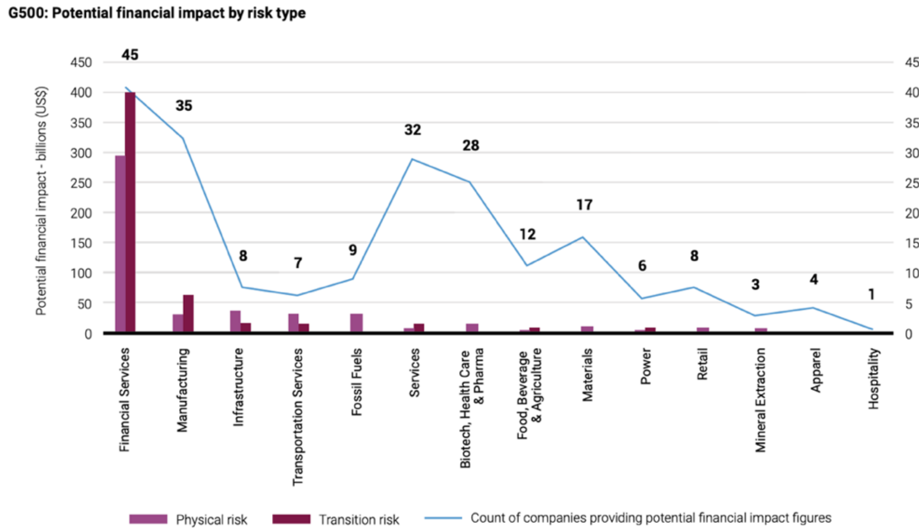
It is particularly surprising to see lower figures being reported by US-headquartered companies in terms of physical risks. According to MunichRe, 2017 had the highest disaster related insured losses on record at US$135 billion, with the US share of losses in 2017 even larger than usual: 50% as compared to the long-term average of 32%. In 2018, according to a report by Aon, 64% of global insured losses from natural disasters came from the United States. The years 2017 and 2018 were the costliest back-to-back years for weather disasters on record globally, with an economic impact of US$653 billion. **Stakeholders should expect to see higher numbers being reported by US-headquartered companies in future and should be ask questions if this does not happen**. [Bold added][18]

[16] Page 5, *Major Risk or Rosy Opportunity: Are companies ready for climate change*. See https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

[17] Page 24. See https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

[18] Page 23. See https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

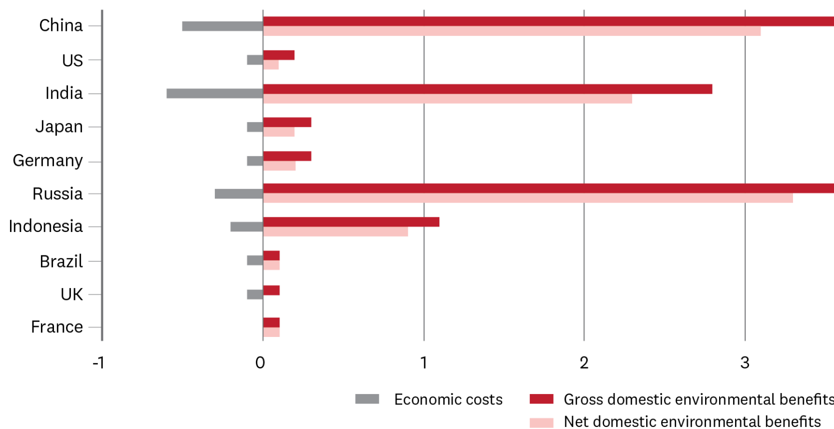
Figure 7: What are the potential financial impacts of your climate-related risks by risk type[19]



An October 2019 IMF report *Fiscal Monitor: How to Mitigate Climate Change* suggests $75 a tonne of carbon might be the price in 2030[20] consistent with keeping the temperature increase below 2C. It once again illustrates the costs v benefits of moving to a low-carbon economy. Figure 8 below illustrates a $50/tonne cost of carbon.

This is further evidence that the New Zealand Government should consider an internal carbon price when making investment and policy decisions (e.g. under the RMA or moving the Auckland port). Figure 9 overleaf illustrates the emerging trend to carbon tax (a policy instrument the Institute supports). We suggest that the resulting tax revenue could be 'ring-fenced' for grants, enabling those same entities to invest in research and development (R&D) to reduce carbon emitted and move to low-carbon products and services.

Figure 8: The huge environmental benefits of cutting local pollution: Costs and benefits of a $50/tonne carbon tax in 2030 (% of GDP)[21]



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[19] Page 21. See https://www.cdp.net/en/research/global-reports/global-climate-change-report-2018/climate-report-risks-and-opportunities

[20] Page (viii). See https://www.imf.org/en/Publications/FM/Issues/2019/09/12/fiscal-monitor-october-2019

[21] Financial Times: There is one way forward on climate change, Martin Wolf. See https://www.ft.com/content/27c9a6e8-ffb7-11e9-b7bc-f3fa4e77dd47

There is reasonable consensus among economists that the introduction of a carbon tax is one of the key incentives for ensuring that companies are proactive in reducing emissions.[22]

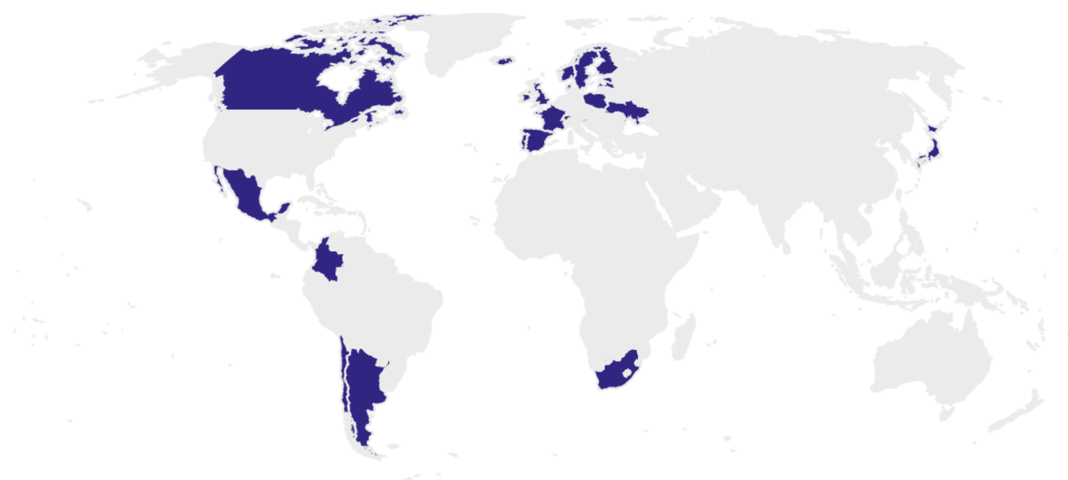
Any reporting framework should allow for the addition of a carbon tax. In our view, and in the view of many international economists, a carbon tax will be an essential mechanism to deliver a just transition to a low-carbon future. It is therefore timely to use this opportunity to create a simple and effective method of reporting and assuring emissions to build the base infrastructure for a carbon tax. The resulting tax revenue would ideally be earmarked for innovation grants to be distributed back to taxed companies, which in turn could help them and their staff make an effective and just transition.

Adopting an internal carbon price (ICP) is emerging best practice. A recent *Harvard Business Review* article states:

> In most cases these ICPs are framed as "shadow prices," meaning that the carbon price is included in the evaluation of investment options, just as other costs are. This price, rather than representing actual outlays today, may reflect the costs the firm expects to be imposed on carbon emissions as public policy and regulations evolve over the lifetime of the investment. Suppose a firm is choosing among energy sources for a new power plant. Fossil-based energy may be the cheapest option given current regulations, but when a carbon price reflecting likely future climate policies is taken into account, a renewable power source may be more financially attractive.[23]

According to the World Bank Carbon Pricing Dashboard, at present 25 countries (29 including subnational jurisdictions) have implemented a national carbon tax (this does not include Emissions Trading Schemes). These include Argentina, Canada, Chile, Colombia, Denmark, Estonia, Finland, France, Iceland, Ireland, Japan, Latvia, Liechtenstein, Mexico, Norway, Poland, Portugal, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, United Kingdom and Ukraine.[24] See Figure 9.

Figure 9: Countries in 2019 that have implemented a carbon tax[25]



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[22] Financial Times: A fair and simple way to tax carbon emissions, Raghuram Ranjan. See https://www.ft.com/content/96782e84-2028-11ea-b8a1-584213ee7b2b

[23] Harvard Business Review: Future-Proof Your Climate Strategy, Joseph E. Aldy and Gianfranco Gianfrate. See https://hbr.org/2019/05/future-proof-your-climate-strategy

[24] See https://carbonpricingdashboard.worldbank.org/map_data

[25] Worldbank Carbon Pricing Dashboard. See https://carbonpricingdashboard.worldbank.org

2.7 How: (A) Reporting standard and guidance setter (See Q8, Q21, Q35, Q36, Q38)

The existing legislative structure for external reporting is well-established and sets a clear framework for determining which entities should prepare financial reports. Using the existing legislative structure also ensures all entity types (not just companies) are covered. We do not consider setting up a separate reporting structure or regime for reporting climate-related information necessary as this would complicate entities' reporting obligations and further fragment the external reporting landscape.

Furthermore, it should be noted that in the *2017 Extended External Reporting (EER) Surveys*, (undertaken as a collaboration between the XRB and the McGuinness Institute), the majority of users of annual reports indicated that they would look to the XRB (rather than, for example, the FMA or NZX) to set Extended External Reporting (EER) guidance or requirements if EER became mandatory.[26] See discussion on EER in Section 3.3 of this submission.

We consider the XRB to be the most appropriate body to issue any standards, guidance and/or other pronouncements related to reporting climate-related information. The XRB has experience in developing domestic standards to support entities to meet legislative requirements. Examples of these precedents include the domestic accounting standards FRS 42 *Prospective Financial Statements* (to support the preparation of council's long-term plans under the Local Government Act 2002) and FRS 48 *Service Performance Reporting* (to support the preparation of a statement of performance under the Crown Entities Act 2004). The XRB has also issued domestic standard NZ AS 1 *Audit of Service Performance Information* for the assurance of the statement of performance.

The TCFD's recommended financial disclosures are considered relevant to, and fit within, information that primary users of annual reports need for decision-making. In our view, climate-related disclosures should be treated in the same way as other required material disclosures. This clearly places the responsibility for issuing standards and guidance within the remit and skills of the XRB.

In terms of the mechanism for making this happen, we believe there are at least two options.

Option A: Treat the new climate-related financial disclosures as part of the NZ IFRS. This would result in the standard being a domestic Financial Reporting Standard (and a Public Benefit Entity Financial Reporting Standard) of the non-financial reporting standard type. Currently, XRB can issue domestic standards.[27]

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26 Pages 46–47, 50, *Users' Survey: Attitudes of interested parties towards Extended External Reporting* (March 2018). See http://www.mcguinnessinstitute.org/wp-content/uploads/2018/03/20180312-Users-Survey-Results-Booklet-FINAL.pdf

27 *NZ IFRS 1: New Zealand Equivalent to International Financial Reporting Standard*
Appendix A: Defined terms
New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) [means] Standards and Interpretations issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB comprising:
(a) New Zealand equivalents to: (i) International Financial Reporting Standards; (ii) International Accounting Standards; (iii) IFRIC Interpretations; and (iv) SIC Interpretations; and
(b) domestic Financial Reporting Standards. [Bold added]
See https://www.xrb.govt.nz/accounting-standards/for-profit-entities/nz-ifrs-1
[The similar exists for public benefit entities in PBE IPSAS 1]
PBE IPSAS 1: Public Benefit Entity International Public Sector Accounting Standard 1: Presentation of Financial Statements
Para 7: Definitions
Public Benefit Entity Standards (PBE Standards) [means] standards issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB comprising:

Option B: Treat the new climate-related financial disclosures as a new standard type. This option may require a change to the XRB's reporting strategy. If there was a change in the reporting strategy, this would require the XRB to publicly consult and then gain approval from the Minister (e.g. updating the *2015 Accounting Standards Framework,* see Table 1 overleaf).

There are pros and cons for each option, but they would both provide businesses with immediate certainty over reporting requirements and will move the economy quickly to a low-emissions economy, and help to optimise innovation and reduce emissions (in order to meet New Zealand's commitment to the *Paris Agreement*).

2.7.1 Background

The XRB's *Application of the Accounting Standards Framework* sets out the financial reporting tiers for entities required under law to prepare financial statements in accordance with XRB accounting standards, the criteria for each financial reporting tier, the accounting standards and authoritative notices that apply to each tier and the requirements for an entity to move from one tier to another tier.

In March 2012, in accordance with the requirements of s 34A of the Financial Reporting Act, the XRB submitted its *Proposals for the New Zealand Accounting Standards Framework Incorporating the Draft Tier Strategy* to the Minister of Commerce.[28] Table 1 overleaf is an excerpt from the updated 2015 proposal that sets out the reporting strategy that exists as at December 2019. NZ IFRS refers to standards that fully converge with the International Financial Reporting Standards (IFRS) (that are issued by the IASB). IFRS are adopted via New Zealand equivalents and become known as NZ IFRS.[29]

(a) Public Benefit Entity International Public Sector Accounting Standards;

(b) Public Benefit Entity International Financial Reporting Standards, including Public Benefit Entity International Accounting Standards; and

(c) Public Benefit Entity Financial Reporting Standards. [Bold added]

See https://www.xrb.govt.nz/accounting-standards/not-for-profit/pbe-ipsas-1

[28] See https://www.xrb.govt.nz/reporting-requirements/history/#tier-strategy

[29] See https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/new-zealand

Table 1: 2015 Accounting Standards Framework – XRB's Tier Structure[30]

	For-Profit Entities		Public Benefit Entities	
	Entities	Accounting Requirements/Standards	Entities	Accounting Requirements/Standards
Tier 1	• With "Public Accountability" (as defined) • Large (as defined) for-profit public sector entities	NZ IFRS	• With Public Accountability (as defined) • Large (as defined)	PBE Standards
Tier 2	• Without "Public Accountability" (as defined) • Non-large for-profit public sector entities which elect to be in Tier 2	NZ IFRS with reduced disclosures (also called NZ IFRS RDR)	• Without Public Accountability (as defined) • Non-large (as defined) which elect to be in Tier 2	PBE Standards with reduced disclosures (also called PBE Standards RDR)
Tier 3			• Without Public Accountability (as defined) with expenses ≤$2 million which elect to be in Tier 3	PBE Simple Format Reporting - Accrual (also called PBE SFR-A)
Tier 4			• Entities allowed by law to use non-GAAP accounting standards which elect to be in Tier 4	PBE Simple Format Reporting – Cash (also called PBE SFR-C)

In the XRB's tier structure, for-profit entities and public benefit entities that have (i) public accountability (as defined) or are (ii) 'large' public benefit entities (as defined by size of expenses) are Tier 1 entities. These types of entities have the highest level of disclosure requirements. 'Public accountability' and 'large' public benefit entities are set out in XRB A1 Application of the Accounting Standards Framework (see paragraphs 8, 9, 18, 37 and 38 in (A) XRB A1 below).

Excerpts: XRB's Tier 1 Structure in Standards and Legislation

(A) XRB A1 Application of the Accounting Standards Framework[31]

Definitions

For-profit entities are reporting entities that are not public benefit entities.

For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001.

Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

Public sector public benefit entities (public sector PBEs) are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

Public Accountability

7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:

(a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or

(b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.

8 In accordance with the IASB definition, an entity has public accountability if:

[30] Page 6, *New Zealand Accounting Standards Framework*. See https://www.xrb.govt.nz/dmsdocument/2541

[31] See https://www.xrb.govt.nz/dmsdocument/3284

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

9 An entity is deemed to have public accountability in New Zealand if:

(a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013; or

(b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

TIER STRUCTURE

14 The tier structure for for-profit entities consists of two tiers.

15 A for-profit entity shall report in accordance with Tier 1 For-profit Accounting Requirements if it meets the Tier 1 criteria.

16 A for-profit entity that does not meet the Tier 1 criteria may elect to report in accordance with Tier 2 For-profit Accounting Requirements.

Tier 1 Criteria [For-profit Entities]

17 Subject to the requirements on moving between tiers (set out in paragraphs 24 to 30), a for-profit entity shall report in accordance with Tier 1 For-profit Accounting Requirements if it:

(a) (i) **has public accountability** at any time during the reporting period; or

(ii) **is a large for-profit public sector entity**; or

(b) is eligible to report in accordance with the accounting requirements of Tier 2 but does not elect to report in accordance with that tier.

18 For the purpose of applying the **Tier 1 size criteria, a for-profit public sector entity is large if it has total expenses over $30 million.** Total expenses means the total expenses (including income tax expense) recognised in its profit or loss by an entity in accordance with Tier 1 For-profit Accounting Requirements, where profit or loss is defined as the total of income less expenses, excluding the components of other comprehensive income. Where income and expenses are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is applied to the group comprising the parent/controlling entity and all its subsidiaries/controlled entities. …

Tier 1 Criteria [Public benefit Entities]

37 Subject to the requirements on moving between tiers (set out in paragraphs 47 to 72), a PBE shall report in accordance with Tier 1 PBE Accounting Requirements if it:

(a) (i) has public accountability at any time during the reporting period; or

(ii) is large; or

(b) is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.

38 For the purpose of applying the Tier 1 size criteria, a PBE is large if it has total expenses over $30 million. Total expenses means the total expenses (including losses and grant expenses), recognised in its surplus or deficit by an entity in accordance with Tier 1 PBE Accounting Requirements, where surplus or deficit is defined as the total of revenue less expenses, excluding the components of other comprehensive revenue and expense. Where revenue and expense are offset as required or permitted by a relevant accounting standard, any net expense is included in total expenses. Where the entity reporting is a group, total expenses is that of the group comprising the controlling entity and all its controlled entities.

(B) Financial Markets Conduct Act 2013

Section 451: Meaning of FMC reporting entity
In this Act, FMC reporting entity means—

(a) every person who is an issuer of a regulated product (but see section 452):
(b) every person who holds a licence under Part 6 (other than an independent trustee of a restricted scheme):
(c) every licensed supervisor:
(d) every listed issuer (but see section 351(1)(ab)):
(e) every operator of a licensed market (other than a market licensed under section 317 (overseas-regulated markets)):
(f) every recipient of money from a conduit issuer (see section 453):
(g) every registered bank:
(h) every licensed insurer:
(i) every credit union:
(j) every building society:
(k) every person that is an FMC reporting entity under clause 27A of Schedule 1.

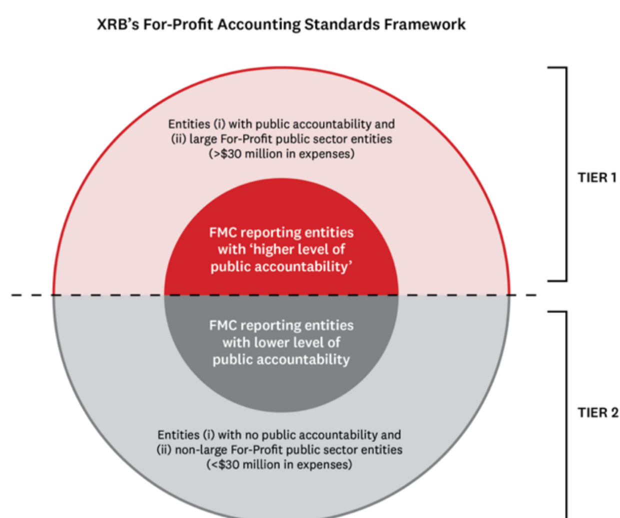
Section 461K: FMC reporting entities considered to have higher level of public accountability
(1) The following FMC reporting entities are considered to have a higher level of public accountability than other FMC reporting entities:
(a) issuers of equity securities or debt securities under a regulated offer:
(b) managers of registered schemes, but only in respect of financial statements of a scheme or fund prepared under section 461A:
(c) listed issuers:
(d) registered banks:
(e) licensed insurers:
(f) credit unions:
(g) building societies:
(h) an FMC reporting entity, or a class of FMC reporting entities, specified for the purposes of this paragraph by a notice issued under section 461L(1)(a).

(C) Financial Reporting Act 2013

Section 45: Meaning of large
(1) For the purposes of an enactment that refers to this section, an entity (other than an overseas company or a subsidiary of an overseas company) is large in respect of an accounting period if at least 1 of the following paragraphs applies:
(a) as at the balance date of each of the 2 preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed $60 million:
(b) in each of the 2 preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds $30 million.
(2) For the purposes of an enactment that refers to this section, an overseas company or a subsidiary of an overseas company is large in respect of an accounting period if at least 1 of the following paragraphs applies:
(a) as at the balance date of each of the 2 preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed $20 million:
(b) in each of the 2 preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds $10 million.
[Bold added]

Figure 10 below illustrates that FMC reporting entities can be of higher or lower levels of public accountability. If an entity meets the criteria for 'higher public accountability', it must report using Tier 1 (unless it can obtain an exemption). The Financial Markets Conduct Act 2013 enables the FMA to alter designations for either individual or classes of FMC entities through making a notice under the Act. This distinction is written up on the FMA website.[32] Table 2 from the FMA website showcases what this distinction looks like in practice.

Figure 10: Relationship between accounting standards framework's 'public accountability' and Financial Markets Conduct Act 2013's 'higher level of public accountability'[33]



[32] 'All FMC reporting entities have a designated level of public accountability. This impacts which tier of the External Reporting Board Accounting Standards Framework the FMC reporting entity must report under. The tier determines whether the reporting entity must use full accounting standards (eg, NZ IFRS) or reduced disclosure standards (eg, NZ reduced disclosure regime) when preparing its financial statements.

The FMC Act identifies classes of FMC reporting entities it deems to have higher public accountability. All other classes of FMC reporting entities have lower public accountability. The FMC Act also allows for the FMA to vary designations for either individual or classes of FMC reporting entities. Generally speaking FMC reporting entities which investors have a direct investment in, have higher public accountability than other FMC reporting entities.'

See https://www.fma.govt.nz/compliance/exemptions/financial-reporting-exemption-information

[33] Figure 10 was prepared by the McGuinness Institute (based on our understanding of the existing framework).

Table 2: FMA – Public accountability at a glance[34]

Higher public accountability Based on XRB Accounting Standards Framework full accounting standards will apply Full NZ IFRS for for-profit entities, or full PBE standards for public benefit entities	• Equity issuers who make a regulated offer (and have more than 50 shareholders) • Debt issuers who make a regulated • Licensed derivative issuers* • Licensed MIS managers (for the financial statements of the MIS they manage) • Listed issuers • Recipients of money from a conduit issuer* • Registered banks • Licensed insurers • Credit unions • Building societies
Lower public accountability Based on XRB Accounting Standards Framework reduced accounting standards will apply NZ IFRS RDR for for-profit entities, or PBE standards RDR for most public benefit entities	• Licensed MIS managers (for the manager's own • financial statements) • Licensed providers of DIMS (under the FMC Act) • Licensed peer-to-peer lending service providers • Licensed crowd funding service providers • Licensed supervisors • Licensed market operators (domestic)

*The FMA has issued a notice to re-designate recipients of funds from conduit issuers and licensed derivative issuers to having higher public accountability.

As noted, Tier 1 reporters are one of the three groups of entities that, under our proposal, would become 'external climate reporting organisations'. This means Tier 1 (the pink and red in Figure 10 above) would be required to mandatory prepare, publish in their annual report and file a *Statement of Climate Information*. All other for-profit entities, such as Tier 2 (the light and dark grey in Figure 10 above) and SMEs, under our proposal, would be able to self-select to become a voluntary preparer and/or publisher and/or voluntary filer. The extent these other entities decide to prepare, publish or file is completely up to them. The key is that this option is available to them.

2.8 How: (B) Assurance (See Q28–Q32)

We recommend that the *Statement of Climate Information* be audited.

It is important that climate-related information is credible and can be relied upon by users. It is for this reason that we advocate for climate-related information to be audited.

The Climate Leaders Coalition 2019 statement notes:

> **2019 Statement**
> As signatories to the Climate Leaders Coalition, we are acting on climate change now, to create a future that is low-emissions, positive for our businesses and the economy, and inclusive for all New Zealanders.
> We are committed to the Paris Agreement target to keep warming below 2 degrees and to further pursue efforts to limit the temperature increase to 1.5 degrees.
> By being a signatory to the Coalition, our organisations are actively:
> - Measuring our greenhouse gas footprint, having the data **independently verified by a third party** and making the information publicly available;
> - Adopting targets grounded in science that will deliver substantial emissions reductions so our organisations contribute to New Zealand being carbon neutral by 2050. These targets will be considered in current planning cycles;

[34] Financial reporting exemptions, Public accountability at a glance. See https://www.fma.govt.nz/compliance/exemptions/financial-reporting-exemption-information

- Assessing our climate change risks and publicly disclosing them;
- Proactively supporting our people to reduce their emissions, and
- Proactively supporting our suppliers to reduce their emissions. [Bold added][35]

Under our recommendations, information included in the financial statements would be subject to audit as part of the financial statements. Current assurance standards require an auditor to read and consider other information presented in the annual report and respond appropriately if there are material inconsistencies or misstatements. Appendix G of the *NZ Government Discussion Document* sets out the existing assurance standards and pronouncements that are relevant to the assurance of climate-related disclosures. As such, information disclosed in the annual report would be reviewed by the auditor for material inconsistencies or misstatements.

The International Auditing and Assurance Board (IAASB) is also developing assurance guidance on Extended External Reporting (EER). 'The key objective of the project is to enable more consistent and appropriate application of ISAE 3000 (Revised) to emerging forms of external reporting (EER) and greater trust in the resulting assurance reports by users of EER.'

This will primarily be achieved through:

(i) Developing non-authoritative guidance in applying ISAE 3000 (Revised) to EER;
(ii) Continuing to provide thought leadership on assurance issues in relation to EER; and
(iii) Coordinating the work of the project with related initiatives of other relevant international organisations.[36]

As a parallel to this, users in the *2017 Extended External Reporting (EER) Surveys* also indicated that they thought EER information should be independently assured.[37]

[35] See https://www.climateleaderscoalition.org.nz/about/2019-statement

[36] See http://www.iaasb.org/projects/extended-external-reporting-eer-assurance

[37] Pages 51–53, *Users' Survey: Attitudes of interested parties towards Extended External Reporting* (March 2018). See http://www.mcguinnessinstitute.org/wp-content/uploads/2018/03/20180312-Users-Survey-Results-Booklet-FINAL.pdf

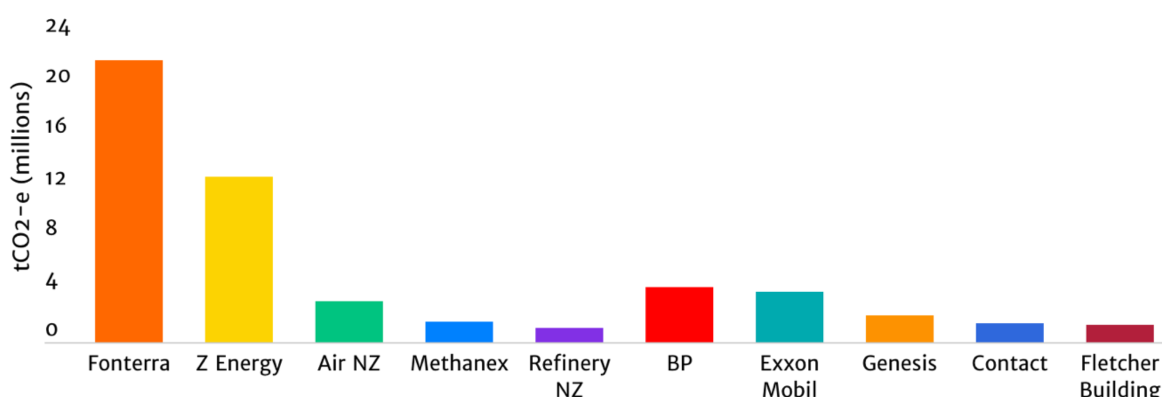
PART THREE: BACKGROUND INFORMATION TO THE RATIONALE

3.1 Who Should Report: Heavy Emitters (See Q8, Q21, Q22 and Q23)

3.1.1 NZX-listed companies do not represent all heavy emitters

Research conducted by *Stuff* reporters in July 2019 suggested that ten companies produced about 54.5 million tonnes of CO_2 – more than two thirds of New Zealand's total emissions (see Figure 11). These included seven of the 28 companies reviewed in the Forsyth Barr report discussed below (i.e. Fonterra, Z Energy, Air New Zealand, New Zealand Refining Company, Genesis Energy, Contact Energy and Fletcher Building). The other three are not listed on the NZX as they are New Zealand subsidiaries of the oil giants: BP, ExxonMobil and Methanex.[38] This raises questions around what mechanisms can be implemented to require such companies to report; and if yes, where and in what form should their TCFD disclosures be made 'publicly available'.

Figure 11: New Zealand's biggest emitters[39]



3.1.2 Just under half of big companies listed on NZX disclose some form of emissions data but it generally cannot be compared

In New Zealand in December 2019, Forsyth Barr published the *Carbon Report*.[40] The report contains a review of publicly available emission disclosures made by 62 NZX entities[41] that Forsyth Barr covers (NZX50 and a number of other listed entities).[42] The report found that out of 62 entities (NZX50 and

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[38] Note: As a list of ETS participants is not public, we are unable to confirm whether these entities participate. We note in 2021 (Cabinet Paper: NZ ETS Tranche two: Improving Transparency) that the EPA will make public the list of participants and their GHG inventories (an initiative we strongly support.) The TCFD disclosures will help provide context for this this information publicly accessible).

[39] See https://www.stuff.co.nz/business/114431409/nzs-biggest-greenhouse-gas-emitters-and-their-struggle-to-pollute-less

[40] See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

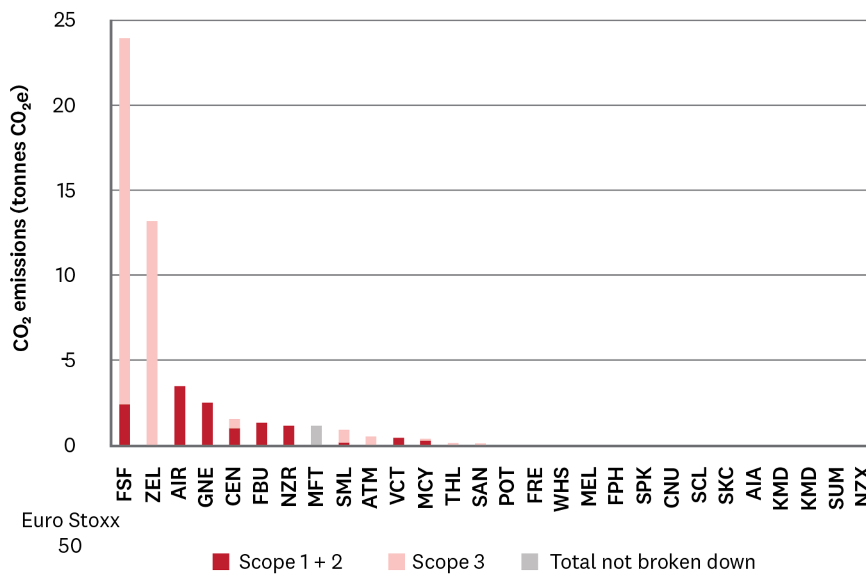
[41] Note: '62' is the number of companies found on the following link: https://www.forsythbarr.co.nz/assets/public/publications/Forecasts-rankedv4.pdf?Expires=1576726672&Signature=ebNNQlR16xlqx2dNTauUuwCXgEwy~0OXs06SvmwJEEisu0QOnmCOWpFyymcP3hQAB6AVsHvPhxH7kEJcYd8NFfr11oq40ErIFxYUCYkICT4GIuP3PNElKZcN9SaBqK1ePMUMwTVW9PMwzzlcNwJCx17lByMHPLRWu8z9~xiFYBvB5IKKSlfFrT1XwEwF2Oh6vZ6TegYCpRKy1Mxn~V8OGQ7HGOq8lgUPGVPt1Nan033ifeFRHjEFk9Dz4dnO9Czn2V96RkH2erKQ7xv6pagRlZBztQSBWqmehaOYc0t~vetYMJCDDF0Ze2epwci1csdx7lWfdvyP0wnssLmuTQ__&Key-Pair-Id=APKAI5O6Q65KXUIAATYA

[42] Note: Personal communication with Andy Bowley and Guy Hooper (Forsyth Barr) on 16 December 2019.

others), 27 disclosed their emissions.[43] The McGuinness Institute reviewed the 27 in more detail and found 19 (of the 27) companies disclosed their emissions in an annual report (the remaining 8 were either in Sustainability reports, on the company website or in GHG Inventory reports).

The report indicates that '[t]he majority of total NZX emissions (>70%) stem from just two companies — Fonterra and Z Energy' however this is only due to these companies including Scope 3 information.[44] If these were to be removed then Air New Zealand and Genesis Energy would become the largest emitters.[45] See Figure 12 below.

Figure 12: High concentration of carbon emitters on NZX among those that disclose emissions[46]



3.1.3 NZX is a relatively low-emissions market

The *Carbon Report* also found that the NZX, as a whole, is a relatively low-emissions market in comparison with other stock exchanges around the world. The report concluded that the NZX, as a market, does not have a huge number of heavy emitters. The Institute conducted a brief review of the industry breakdown of NZSX-listed entities through quantifying how many of the entities broadly fit under the five sectors considered to be heaviest emitters under the national GHG Inventory[47] (Energy, Agriculture, Land use change, Industrial Processed and Waste) and found that roughly a third of NZX

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43 Note: Forsyth Barr estimated the emissions of Mainfreight, meaning 28 companies were included in their analysis. Given that this information is not publicly available it has been excluded from our analysis (hence we look at 27 companies).

44 Note: Scope 3 is one of three scopes emitters can disclose. See https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

45 Figure 6. page 2, Forsyth Barr's *Carbon Report – Counting Carbon Costs: Climate Change and NZX Companies* (2019). See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

46 Page 2, Forsyth Barr's *Carbon Report – Counting Carbon Costs: Climate Change and NZX Companies* (2019). See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

47 See https://www.mfe.govt.nz/climate-change/state-of-our-atmosphere-and-climate/new-zealands-greenhouse-gas-inventory

listed companies could broadly fit under one of the heavy emitting industries, while a significant number of listed entities were investment firms and technology companies.[48]

3.1.4 Diverse range of emissions data in annual (and other) reports

The *Carbon Report* also noted differences in presentation of emissions from each company indicating that '46% of NZX 50 companies do not provide disclosures for their Scope 1 and Scope 2 emissions'.[49]

The Institute further reviewed the emissions disclosures (see pink box below).

Research: Of the 27 NZX-listed entities reviewed (see Figure 2 above):

12 (44%) 'did' disclose Scopes 1, 2 and 3 emissions separately
15 (56%) 'did not' disclose Scopes 1, 2 and 3 emissions separately
6 (22%) disclosed all three scopes together as a sum
1 (4%) disclosed the sum of scope 1, 2 and 3 emissions together but provided a percentage break down of the scopes
1 (4%) disclosed Scopes 1 and 2 combined and Scope 3 separately
2 (7%) disclosed Scopes 1 and 2 separately (but not Scope 3)
1 (4%) disclosed Scopes 1 and 2 together as a sum (but not Scope 3)
1 (4%) disclosed Scopes 2 and 3 separately (but not Scope 1)
2 (7%) did not disclose 'Scopes' at all but disclosed an alternative breakdown (i.e. electricity, gas, flights etc)
1 (4%) did not disclose 'Scopes' at all but disclosed a rounded number (not the specific amount emitted)

Research: Of the 19 NZX-listed entities who included their GHG emissions in their latest available annual report:

8 (42%) 'did' disclose scopes 1, 2 and 3 emissions separately
11 (58%) 'did not' disclose scopes 1, 2 and 3 emissions separately
5 (26%) disclosed all three scopes together as one sum
1 (6%) disclosed the sum of scope 1, 2 and 3 emissions together but provided a percentage break down of the scopes
1 (6%) disclosed scopes 1 and 2 combined and Scope 3 separately
2 (10%) disclosed scopes 1 and 2 separately (they not disclose Scope 3)
2 (10%) disclosed an emission break down but not as Scopes (electricity, gas, flights etc.)

3.1.5 Auditing of emissions is an emerging practice in NZ

The *Carbon Report* found that, of the NZX50 companies, nine received either a CEMARS or CarbonZero certification (Auckland Airport, Fisher & Paykel Healthcare, Freightways, Kathmandu, Ryman Healthcare,[50] SkyCity Entertainment, Summerset, Warehouse Group and subsidiaries of Scales Corporation). Other assurance providers were Deloitte (for Synlait) and Bureau Veritas (for Fonterra).[51] It is interesting to note that one of the 'big four' accounting firms provided assurance on emissions.

Please also note that in the UK, just under 12,000 organisations are expected to disclose emissions. See Section 2.5.2 of this submission.

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[48] Note: These conclusions can be further evidenced by research undertaken by the McGuinness Institute for *Working Paper 2018/01 – NZSX-listed Tables*, which found that 25% of the 129 companies on the NZX fit under 'financial and insurance services' or 'professional, scientific and technical services'. Page 26, *Working Paper 2018/01 – NZSX-listed Tables*. See http://www.mcguinnessinstitute.org/working-papers/

[49] Page 13, Forsyth Barr's *Carbon Report – Counting Carbon Costs: Climate Change and NZX Companies* (2019). See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

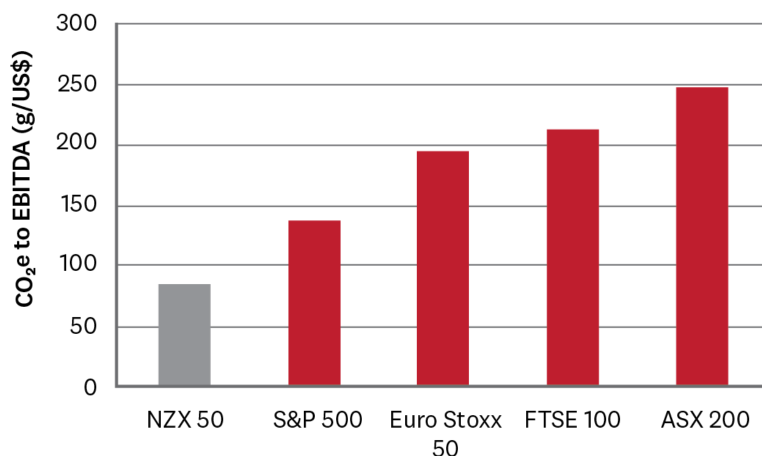
[50] Note: Ryman Healthcare disclosed in their 2019 annual report (page 58) that emissions had been audited but did not disclose their emissions information.

[51] Page 15, Forsyth Barr's *Carbon Report – Counting Carbon Costs: Climate Change and NZX Companies* (2019). See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

3.1.6 Those that emit generally disclose

Forsyth Barr suggests that as there are a small number of entities operating in the energy and agriculture sectors on NZX, heavy emitters were more likely to disclose (see Figure 13 below).

Figure 13: Carbon emitters on the NZX that disclose emissions[52]



3.2 How are reporting standards and guidance developed? (See Q8, Q21, Q28, Q32, Q35, Q36 and Q38)

Under the existing reporting framework, the XRB is the independent Crown entity responsible for financial reporting strategy and the development and issuance of accounting and auditing and assurance standards in New Zealand. XRB standards are applied by entities required under law to prepare financial statements (and have them assured) using generally accepted accounting practice (GAAP).[53] 'Various pieces of legislation require entities to prepare general purpose financial reports (GPFR) that comply with XRB standards'.[54]

New Zealand (through the XRB) adopts international assurance and accounting standards.[55] International accounting standards are designed to respond to financial reporting issues that are generally backward-looking and, when forward-looking, only address risks with a high level of certainty. There is no strong platform for developing non-financial future-focused reporting for wider users (other than primary users) that therefore close the emerging 'reporting standards gap'.

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52 Figure 31, page 18, Forsyth Barr's *Carbon Report – Counting Carbon Costs: Climate Change and NZX Companies* (2019). See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

53 Financial Reporting Act 2013
Section 8: Meaning of generally accepted accounting practice
In this Act, financial statements, group financial statements, a report, or other information complies with generally accepted accounting practice only if the report, statements, or information comply with—
(a) applicable **financial reporting standards**; and
(b) in relation to matters for which no provision is made in applicable financial reporting standards, an authoritative notice. [Bold added]

54 See https://www.xrb.govt.nz/reporting-requirements/accounting-standards-framework

55 Note: In relation to accounting, the XRB adopts standards issued by the International Accounting Standards Board (IASB) for for-profit entities and standards issued by the International Public Sector Accounting Standards Board (IPSASB) for public benefit entity entities. In relation to assurance, the XRB adopts standards and other pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

If the IASB is not going to progress a climate-related disclosure regime in the immediate future, countries like New Zealand, which adopt the IASB's accounting standards, will be left with the challenge of developing a regulatory solution to improve climate reporting. Such a solution will likely be built around the content of an annual report and the filing of those reports on a public register.

The Institute believes climate change, which will affect almost all entities, makes a case for improving the content of annual reports of selected entities and making those reports more accessible to the general public. The Institute's *Discussion Paper 2019/01* proposes that the content of annual reports be improved in the following ways:

- Require preparation of a new *Statement of Climate Information* to be included in the directors' report section of an annual report;
- Clarify what other information should be included in the content of a directors' report;
- Require public filing of the directors' report (and ideally the whole annual report); and
- Require publication of the corporate governance statement as part of the annual report.

The Institute also proposed that the XRB, the accounting and assurance standards setter in New Zealand, develops and issues a domestic accounting standard and corresponding domestic auditing and assurance standard on climate-related disclosures.

In relation to for-profit entities, the IASB is currently reviewing and updating its non-mandatory *IFRS Practice Statement 1: Management Commentary*. In undertaking the project, this IASB will consider how broader financial reporting could complement and support IFRS financial statements. While the updated Practice Statement will remain primarily focused on the broader financial information needs of investors, the IASB wants companies to report on what is strategically important to them, including disclosure of how sustainability issues, such as climate change may impact their business (if that impact is material).

The IASB acknowledges that where climate-related risks have a significant impact on a company's operations, information about how this has been factored into impairment calculations, for example, would be relevant to the users of the financial statements.[56]

The IASB expects that as the impacts of climate change become more prominent, they will become more and more visible in the financial statements. The IASB expects to publish an Exposure Draft of the revised Practice Statement in the second half of 2020.[57]

In this context, it will be necessary for the XRB to determine which TCFD recommendations are relevant to users of annual reports and to what extent they should be included in the Management Commentary. This is necessary in order for the XRB to contribute to, and influence, international deliberations on the review of the *Management Commentary Practice Statement* to ensure that climate-related disclosures as the recommendations by the TCFD and relevant to users of general purpose financial reports (GPFR) are covered in the updated *Management Commentary Practice Statement*.

The XRB can ensure external reporting requirements are coherent and remain consistent with existing information in GPFR, reducing the risk of information overload, inconsistency and/or duplication in

[56] Note: The IASB has also recently published an article which explains how existing requirements within IFRS Standards relate to climate change risks and other emerging risks even though such risks are not explicitly referenced in the IFRS Standards. See https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en

[57] See https://www.ifrs.org/projects/work-plan/management-commentary

requirements. The XRB is also best placed to make the necessary connections between the TCFD's recommendations and their impacts on financial information.

The XRB has the widest remit among all relevant agencies to for issuing standards and/or guidance on climate-related disclosures. XRB's remit covers for-profit, public sector and not-for-profit entities, whether they are listed or are FMC reporting entities. Standards and guidance issued by the XRB can also be extended to apply to or assist reporting entities in preparing their adaptation information under the Climate Change Response Act 2002.

Other agencies like the Financial Markets Authority (FMA), Reserve Bank of New Zealand (RBNZ) and/or NZX have remits that cover their respective specific entity types. Furthermore, they are regulators, not standard-setters. We support the separation of standard-setting and regulatory functions to ensure a high-quality set of requirements and robust regulation of their application.

Notwithstanding the absence of an international accounting standard on climate-related matters,[58] the XRB is empowered by law to issue standards or guidance for New Zealand entities as it deems fit if such requirements were necessary to ensure high-quality reporting. For example, the XRB has issued domestic standards on service performance information, summary financial statements and prospective financial statements. These are unique to New Zealand and are not issued by the IASB.

The following standards support our proposal in that they link New Zealand law to standards developed and issued by the XRB.

For example:

(i) The Local Government Act 2002 requires a local authority to prepare, and make publicly available, a long-term plan which covers a period of not less than 10 consecutive financial years (s 93).[59]

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[58] Note: In December 2018, the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB) issued guidance titled *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2*. See https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finished.pdf

[59] Local Government Act 2002
Section 93: Long-term plan
(1) A local authority must, at all times, have a long-term plan under this section.
(2) A local authority must use the special consultative procedure in adopting a long-term plan.
(3) A long-term plan must be adopted before the commencement of the first year to which it relates, and continues in force until the close of the third consecutive year to which it relates.
(4) A local authority may amend a long-term plan at any time.
(5) A local authority must use the special consultative procedure in making any amendment to a long-term plan.
(6) The purpose of a long-term plan is to—
(a) describe the activities of the local authority; and
(b) describe the community outcomes of the local authority's district or region; and
(c) provide integrated decision-making and co-ordination of the resources of the local authority; and
(d) provide a long-term focus for the decisions and activities of the local authority; and
(e) provide a basis for accountability of the local authority to the community.
(f) [Repealed]
(7) A long-term plan adopted under this section must—
(a) cover a period of not less than 10 consecutive financial years; and
(b) include the information required by Part 1 of Schedule 10.
(8) A local authority must, in complying with the requirements of this Act in relation to the preparation and adoption of a long-term plan, act in such manner, and include in that plan such detail, as the local authority considers on reasonable grounds to be appropriate.
(9) A local authority must, in deciding what is appropriate for the purposes of subsection (8), have regard to—
(a) the provisions of sections 77, 78, 79, 80, 81, 82, 83, 84, 96, 97, and 101; and

The long-term plan must contain an audit report from the Auditor-General (see s 94)[60] on the quality of the information and assumptions underlying the forecast information provided in the plan but must not comment on the merits of any policy content of the plan. This requirement requires the disclosure of long-term, future-oriented information. The accounting standard that supports this legislative requirement is FRS 42 *Prospective Financial Statements*, a domestic standard issued by the XRB.

(ii) The Crown Entities Act 2004 requires the annual report of a Crown entity to include, among other matters, a statement of performance (s 151 (b)). Section 153 sets out the form and content of the statement of performance and requires, among other matters, the statement to be prepared in accordance with GAAP.[61] The Act also requires the statement to be audited by the Auditor-General (s 156).[62] The statement of performance includes both non-financial and financial information. The accounting standard that supports this legislative requirement is FRS 48 *Service*

(b) the significance of any matter; and
(c) the extent of the local authority's resources.
(10) A local authority must, within 1 month after the adoption of its long-term plan,—
(a) make its long-term plan publicly available; and
(b) send copies of that plan to—
(i) the Secretary; and
(ii) the Auditor-General; and
(iii) the Parliamentary Library.

60 Local Government Act 2002
Section 94: Audit of long-term plan
(1) The long-term plan must contain a report from the Auditor-General on—
(a) whether the plan gives effect to the purpose set out in section 93(6); and
(b) the quality of the information and assumptions underlying the forecast information provided in the plan.
(c) [Repealed]
(2) In the case of an amended long-term plan, the report under subsection (1) must contain a report by the Auditor-General confirming or amending the report made when the long-term plan was adopted.
(3) A report under subsection (1) must not comment on the merits of any policy content of the plan.

61 Crown Entities Act 2004
Section 153: Form and content of statement of performance
A statement of performance must, in relation to a Crown entity and a financial year,—
(a) be prepared in accordance with generally accepted accounting practice; and
(b) describe each reportable class of outputs for the financial year; and
(c) include, for each reportable class of outputs identified in the entity's statement of performance expectations for the financial year,—
(i) the standards of delivery performance achieved by the entity, as compared with the forecast standards included in the entity's statement of performance expectations for the financial year; and
(ii) the actual revenue earned and output expenses incurred, as compared with the expected revenues and proposed output expenses included in the entity's statement of performance expectations for the financial year.

62 Crown Entities Act 2004
Section 156: Audit report
(1) A Crown entity must forward to the Auditor-General,—
(a) within 3 months after the end of each financial year,—
(i) the Crown entity's annual financial statements and statement of performance (if applicable); and
(ii) any end-of-year performance information that the Crown entity is required to provide under section 19A of the Public Finance Act 1989; and
(iii) any other information that the Auditor-General has agreed, or is required, to audit; and
(b) the Crown entity's annual report in a timely manner to enable the Auditor-General to review that report before providing the audit report required under subsection (2)(b).
(2) The Auditor-General must—
(a) audit the statements and information referred to in subsection (1)(a); and
(b) provide an audit report to the Crown entity within 4 months after the end of each financial year.

Performance Reporting, a domestic standard issued by the XRB. The assurance standards that support this legislative requirement are NZ AS 1 *Audit of Service Performance Information*, a domestic assurance standard issued by the XRB, and the Auditor-General's Auditing Standard AG4 *The Audit of Performance Reports*, an auditing standard issued by the Auditor-General.

3.3 The role of Extended External Reporting (See Q17)

The XRB has issued a *Position Statement on Extended External Reporting* (EER) (the *Position Statement*), which is the umbrella term it uses to 'refer to broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements'.

The *Position Statement* notes:

> Extended External Reporting (EER) is an umbrella term adopted by the XRB to refer to broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements. EER can include reporting information on an entity's governance, business model, risks, opportunities, prospects (including forward-looking financial information), strategies and economic, environmental, social and cultural impacts.[63]

The XRB has observed growing demand from stakeholders, acknowledged the demand for EER by stakeholders and is strongly supportive of entities presenting EER. However, the XRB's *Position Statement on EER* states that when considering what EER information should be included in annual reports, a distinction needs to be drawn between EER relevant to the intended users (audience) of annual reports and EER provided for other purposes, such as public policy purposes. Drawing this distinction helps to ensure that EER enhances, rather than impairs, the effective communication of relevant information to the intended users of annual reports. The XRB's *Position Statement* notes:

> Where more detailed EER on a specific topic (for example, climate change[3]) is required for public policy purposes but is **not relevant** to users of the annual report, in order to avoid 'information overload' the XRB believes that such EER should be presented outside the annual report.
>
> Information overload undermines the relevance and understandability of the annual report for its intended users. Equally, the XRB believes that detailed EER on a specific topic may be more visible/accessible to its intended audience if it is reported outside the annual report, for example, in a separate report to a regulator, prudential supervisor or government agency or presented on an entity's website.
>
> [3] Note: *Where EER information on a specific topic (such as climate change) is relevant to users of the annual report the XRB supports the reporting of this information in an entity's annual report.* [Bold added][64]

Footnote [3] is important in that it nicely draws the distinction between 'relevant and material' information which belongs in an annual report and 'relevant information that is not material' and can be reported elsewhere. The key determinant is whether this information is relevant (or not) to the primary user and then whether that relevant information is material (or not). See the broader discussion in response to Question 17.

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[63] See https://www.xrb.govt.nz/extended-external-reporting/xrb-position-statement

[64] See https://www.xrb.govt.nz/extended-external-reporting/xrb-position-statement

PART FOUR: RECENT DEVELOPMENTS AND ACCOMPANYING DOCUMENTS

4.1 Timeline of recent developments

Below is a brief overview of research reports, articles and media releases that we consider to be significant and have become aware of since the publication of *Discussion Paper 2019/01* in early October this year.

24 September 2019 (UK Corporate Reporting Dialogue)
Report

The UK Corporate Reporting Dialogue (CRD) published *Driving Alignment in Climate-related Reporting.*

The report noted:

> The mapping showed strong alignment between the Participants' frameworks and standards and the TCFD, and also between each other:
> - The TCFD's seven principles for effective disclosure are harmonious and complementary with those of the Participants' frameworks and standards, with the mapping showing no sources of conflict;
> - The Participants are well aligned with the TCFD's 11 recommended disclosures, which are comprehensively covered by the frameworks and standards;
> - There are high levels of alignment between CDP, GRI and SASB for the TCFD's illustrative example metrics, with - 70% of the TCFD's 50 metrics showing no substantive difference between the three participants' indicators; and
> - Overall, 80% of the TCFD's 50 metrics are fully or reasonably covered by the three participants' indicators.65

8 October 2019 (Bank of England)
Speech

Governor of the Bank of England, Mark Carney, delivered the speech *TCFD: strengthening the foundations of sustainable finance* at the TCFD Summit in Japan. He strongly endorsed the disclosure framework and looked closely at the rates of disclosure across the different recommendations. Carney also noted that:

> Despite the increasing number of TCFD supporters, only a quarter of the companies surveyed disclosed information aligned with a fuller set – that is six or more – of the TCFD's recommended disclosures.
> Three quarters of users of climate disclosures said that more information is needed on the financial impact of climate risks and the strategic resilience of firms.
> Progress in both quantity and quality is uneven across sectors. While in 2017 the non-financial sectors (energy, transport, building and agriculture) led the way, banking is now the most advanced sector in disclosing information.[66]

Figures 14 and 15, which accompanied the speech, display the rates of disclosures across each of the TCFD recommendations.

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[65] Page ii. See https://corporatereportingdialogue.com/publication/driving-alignment-in-climate-related-reporting

[66] Page 6, *TCFD: strengthening the foundations of sustainable finance.* See https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/tcfd-strengthening-the-foundations-of-sustainable-finance-speech-by-mark-carney.pdf?la=en&hash=D28F6D67BC4B97DDCCDE91AF8111283A39950563

Figure 14: Changes in TCFD disclosures by recommendation 2016–2018[67]

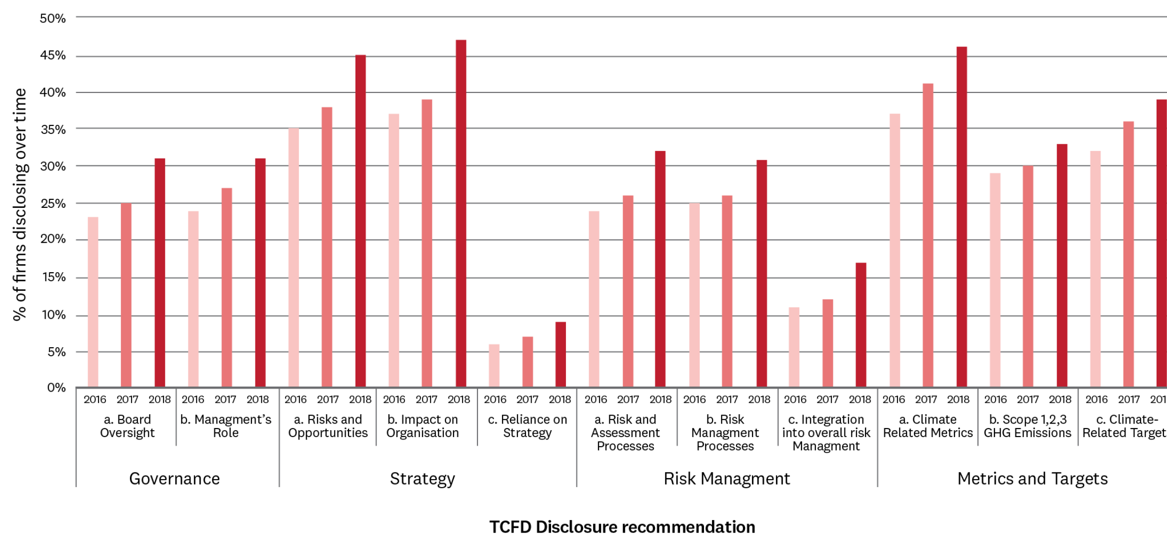

Figure 15: Rates of disclosure against each of the TCFD recommendations by industry[68]

Recommendation	Recommended disclosure	Banking	Insurance	Energy	Materials & Buildings	Transport	Agri, Food & Forest	Tech & Media	Consumer Goods
Governance	a. Board Oversight	48%	29%	38%	37%	25%	22%	19%	29%
	b. Management's Role	54%	35%	32%	35%	18%	26%	17%	40%
Strategy	a. Risks and Opportunities	51%	39%	57%	50%	39%	40%	38%	50%
	b. Impact on Organisation	55%	26%	64%	65%	34%	45%	25%	52%
	c. Resilience of Strategy	20%	12%	13%	12%	5%	4%	2%	6%
Risk Management	a. Risk ID and Assessment Processes	52%	30%	38%	41%	23%	24%	24%	22%
	b. Risk Management Processes	46%	33%	42%	39%	17%	26%	19%	23%
	c. Integration into overall Risk Management	32%	16%	21%	18%	11%	9%	17%	21%
Metrics and Targets	a. Climate-Related Metrics	51%	27%	49%	63%	36%	45%	37%	55%
	b. Scope 1,2,3 GHG Emissions	42%	22%	39%	41%	28%	26%	29%	38%
	c. Climate-Related Targets	50%	24%	45%	53%	32%	30%	24%	51%

22 October 2019 (Financial Reporting Council)

Report

The Financial Reporting Lab, which forms part of the Financial Reporting Council (FRC), published *Climate-related corporate reporting: Where to next?*. The report 'reveals that companies are falling short of investors' expectations for clear reporting on climate-related issues'. The report noted:

> This project sought to test whether the principles of our previous reports on business models, risk and viability reporting and performance metrics could be applied in the context of climate-related reporting … However, as the project progressed it became apparent that there was a significant level of support for the TCFD framework.

[67] Page 4, *TCFD: strengthening the foundations of sustainable finance*. See https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/tcfd-strengthening-the-foundations-of-sustainable-finance-speech-by-mark-carney.pdf?la=en&hash=D28F6D67BC4B97DDCCDE91AF8111283A39950563

[68] Page 6, *TCFD: strengthening the foundations of sustainable finance*. See https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/tcfd-strengthening-the-foundations-of-sustainable-finance-speech-by-mark-carney.pdf?la=en&hash=D28F6D67BC4B97DDCCDE91AF8111283A39950563

> Therefore, this report has been developed to assist companies and provide practical guidance on how to meet investor expectations using the TCFD framework.[69]

31 October 2019 (New Zealand Sustainable Finance Forum)

Interim Report and Legal Opinion

The New Zealand Sustainable Finance Forum (SFF), a project launched by the Aotearoa Circle, released their *2019 Interim Report* and the accompanying *Legal Opinion 2019* prepared by Chapman Tripp.

The *Interim Report* noted:

> TCFD provides a flexible framework for reporting on climate risks and opportunities. The current challenges for integrating climate change disclosures into current financial reporting is around the timeframe for climate risks to materialise. Asset impairment and/or revenue impacts happen over the medium to long-term, making it difficult to integrate into current disclosures. However, many strategies to manage climate risks of an organisation require long lead times, so early identification is critical. Internationally, regulators are providing guidance on their expectations of how to integrate climate risk into current reporting and accounting requirements, such as the Australian Securities & Investments Commission's (ASIC) recent updated guidance on climate risk related disclosures.[70]

The *Legal Opinion* noted:

> The TCFD's recommendations represent a watershed for climate-related financial disclosure. They have been broadly endorsed internationally, with 80% of the top 1100 global companies now disclosing climate-related financial risks in line with some of the TCFD recommendations.28 Regulators in Australia, the United Kingdom and the European Union have already taken action to support the TCFD recommendations. For example:
>
> - 31.1 the Reserve Bank of Australia and the Australian Prudential Regulation Authority (APRA) have endorsed the need for businesses to comply with the recommendations of the TCFD. APRA Executive Board Member Geoff Summerhayes, in his recent speech to the International Insurance Society Global Insurance Forum, described the risk of climate change to the Australian financial system as "foreseeable, material and actionable now";
> - 31.2 the Australian Securities and Investments Commission (ASIC) published a detailed analysis of climate risk disclosure by Australia's listed companies in September 2018, updated several of its guidelines in August 2019 to more fully incorporate TCFD guidance3and released comprehensive guidance on director and officer oversight of non-financial risk in October 2019;
> - 31.3 the Australian Securities Exchange (ASX) and the Australian Accounting Standards Board (AASB) have each released guidelines endorsing and/or building upon the TCFD recommendations;
> - 31.4 the United Kingdom Government expects all listed companies and large asset owners to be disclosing in line with the TCFD recommendations by 202235 and is considering making such reporting mandatory;
> - 31.5 the Bank of England has been active on a number of TCFD-related initiatives, including publishing a Supervisory Statement to enhance banks' and insurers' approaches to managing financial risks from climate change, and its Governor has warned of the criticality of assessing and disclosing climate-related financial risk;
> - 31.6 the United Kingdom Financial Reporting Council (which sets the UK's Corporate Governance Code) has published guidance on companies' 'Strategic Reports' (required alongside annual filings) including reporting on climate risk where material;
> - 31.7 the UK Department for Work and Pensions has introduced extensive new disclosure requirements to further integrate financially material environmental, social and governance (ESG) factors, including climate change, in pension scheme reporting; and
> - 31.8 the European Commission has required reporting of certain non-financial information, including environmental risks, by certain large listed companies, banks and insurers since 2018. In addition, the

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[69] Page 7. See https://www.frc.org.uk/getattachment/22ee8a43-e8ca-47be-944b-c394ecb3c5dd/Climate-Change-v9.pdf

[70] Page 47, *2019 Interim Report*. See https://static1.squarespace.com/static/5bb6cb19c2ff61422a0d7b17/t/5dd3b114d0279f0fb06e00f3/1574154539204/1013241_Sustainable+Finance+Report_FINAL_NEW+%28002%29.pdf

> Commission released formal guidelines for reporting of climate-related information in June 2019, drawing heavily on the TCFD recommendations.[71]

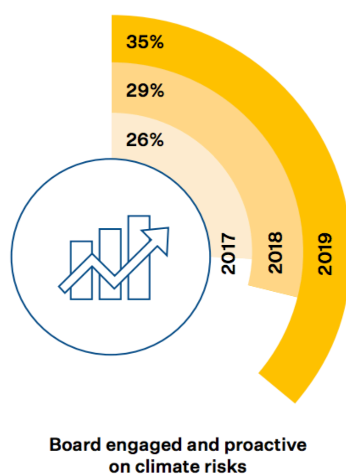
31 October 2019 (New Zealand Institute of Directors)

Survey

The New Zealand Institute of Directors published *Institute of Directors Sentiment Survey 2019*. The survey results in regard to climate change is illustrated in Figure 16 and their conclusions are as follows:

> Climate change is the biggest issue and risk of our times and requires action now to ensure the future of the generations to come. Boards have a critical role in confronting and responding to climate related issues and risks to ensure the long term sustainability of their organisations and to understand and mitigate their impact on the environment. We have seen an upward trend in board engagement on climate change related matters over the past 3 years. However, still only 35% of directors said their boards were engaged and proactive on climate change. While the majority of directors (70%, up from 66% in 2018) agreed that their board considers environmental and social issues are very important to their business, all boards should ensure they are aware of potential impact that climate change could have on their organisations. A legal opinion (commissioned by the Aotearoa Circle and released in October 2019) on climate change and director duties highlights the importance for boards to take action to mitigate climate risks, including physical, transition and liability risks.[72]

Figure 16: Board engagement with climate risks in 2019[73]



[71] Pages 9 and 10, *Legal Opinion 2019*. See https://static1.squarespace.com/static/5bb6cb19c2ff61422a0d7b17/t/5db95b00780a6c1bc1af5743/1572428552373/SFF_Climate+Change+Risk+Legal+Opinion_301019.pdf

[72] Page 6, *Institute of Directors Sentiment Survey 2019*. See https://www.iod.org.nz/resources-and-insights/research-and-analysis/director-sentiment-survey-report-2019/#

[73] Page 6, *Institute of Directors Sentiment Survey 2019*. See https://www.iod.org.nz/resources-and-insights/research-and-analysis/director-sentiment-survey-report-2019/#

7 November 2019 (New Zealand Government)
Act

The New Zealand Government passed the Climate Change Response Act 2002 containing amendments from the Climate Change Response (Zero Carbon) Bill, which set emissions targets, established the Climate Change Commission and gave both the Commission and the Minister for Climate Change the 'power to request provision of information'. The legislation incorporated the core elements of the TCFD recommendations (see excerpt below) and list of reporting organisations in Section 2.2.3 of this submission.

> 5ZW Minister or Commission may request certain organisations to provide information on climate change adaptation
> (1) The Minister or the Commission may, in writing, request that a reporting organisation provide all or any of the following information:
> (a) a description of the organisation's governance in relation to the risks of, and opportunities arising from, climate change:
> (b) a description of the actual and potential effects of the risks and opportunities on the organisation's business, strategy, and financial planning:
> (c) a description of the processes that the organisation uses to identify, assess, and manage the risks:
> (d) a description of the metrics and targets used to assess and manage the risks and opportunities, including, if relevant, time frames and progress:
> (e) any matters specified in regulations.

14 November 2019 (FSB TCFD)
Media release

The Task Force on Climate-related Financial Disclosures (TCFD) announced it established an Advisory Group on climate-related scenario guidance. This may mean New Zealand can refer preparers to the guidance documents the Advisory Group publishes. The media release noted:

> The Task Force on Climate-related Financial Disclosures (TCFD) is forming an advisory group to assist the TCFD in developing practical guidance on climate-related scenario analysis. In its 2018 and 2019 status reports, the TCFD noted that many companies found scenario analysis to be challenging. Specifically, companies have faced challenges with constructing appropriate scenarios, understanding how scenario analysis informs strategy formulation, and determining and disclosing the resiliency of a company's strategy under different climate-related scenarios.[74]

28 November 2019 (IFRS)
Article

IFRS published the article *IFRS Standards and climate-related disclosures* by one of their board members, Nick Anderson. The IFRS website noted:

> The article shows how the principle-based approach of IFRS Standards means that climate change and other emerging risks are addressed by existing requirements, even though such risks are not explicitly referenced. Anderson [the author] also outlines the Board's current work on its Management Commentary project—a narrative

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[74] See https://www.fsb-tcfd.org/wp-content/uploads/2019/11/Announcement-Formation-of-TCFD-Advisory-Group-on-Scenario-Guidance-FINAL-1.pdf

report that gives context for the financial statements and additional insight into the company's long-term prospects.[75]

5 December 2019 (Forsyth Barr, NZ)

Report

Investment advisors Forsyth Barr published *The Carbon Report: Counting Carbon Costs: Climate Change and NZX Companies*, a report with six graphs outlining why we should care about carbon:

> Figure 1: CO_2 atmospheric concentration has risen sharply during the past 50 years
> Figure 2: New Zealand is a high emitter on a per capita basis due to agricultural methane emissions
> Figure 3: Price of carbon in NZ is low… it needs to/will likely rise to have an impact on emitter behaviour
> Figure 4: Lower carbon emitters trade at higher multiples than high emitters
> Figure 5: Weight of SRI (socially responsible investing) mandated money will sustain or expand valuation divide money will sustain or expand valuation divide
> Figure 6: High concentration of carbon emitters on NZX among those that disclose emissions[76]

The Carbon Report also noted:

> Governments, consumers, corporates and investors can no longer escape the reality of climate change, or its key driver, greenhouse gas (GHG) emissions. Investor mandates are becoming greener. Corporates are measuring, understanding and tackling their emissions profiles. Consumers are increasingly making decisions based on the environment, and Governments, including our own, are responding.
>
> In this report we consider the implications of GHG emissions for NZX listed companies.
>
> - Low emissions companies, on average, have higher valuations than high emitters. Low emitting companies have outperformed higher emitting companies over the long-term.
> - Institutional investors are increasingly focused on environmental issues in response to changing investment mandates. The weight of money into low emitting companies will increase relative to high emitters.
> - The cost of carbon will have little financial impact for NZX companies for the foreseeable future given (1) carbon emissions are generally low, (2) the price of carbon is low, and (3) offset commitments/regulatory requirements continue to protect heavy emitters.
> - While several NZX companies provide excellent emissions disclosure, the general standard is mixed. Many companies do not appear to currently measure their emissions; but plenty are planning to. In addition, reporting is not consistent making comparisons difficult.
> - Some sectors will benefit. For example, the higher the carbon price the more electricity is consumed, as transport and industrial processes switch to electricity as a form of energy.
> - New Zealand's CO_2 emissions are largely irrelevant globally, accounting for less than 0.2% of global emissions. However, per capita emissions are high. With the exception of a small number of companies the NZX is a carbon light market.
>
> **Fonterra** (FSF) is the most exposed NZX company to GHG emissions over the longer term, in our opinion, due to the risk to its farmer suppliers. Whilst there is some short-term margin pressure on **Genesis Energy** (GNE) and **Contact Energy** (CEN), in the long-term we expect them to benefit along with the other electricity generators from increased electricity demand. **Z Energy** (ZEL) and aviation-exposed companies **Air New Zealand** (AIR) and **Auckland Airport** (AIA) face risks to longer term volume growth.[77]

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[75] See https://www.ifrs.org/news-and-events/2019/11/nick-anderson-ifrs-standards-and-climate-related-disclosures

[76] Page 2, *The Carbon Report: Counting Carbon Costs: Climate Change and NZX Companies*. See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

[77] Page 1, *The Carbon Report: Counting Carbon Costs: Climate Change and NZX Companies*. See https://investmentnews.co.nz/wp-content/uploads/The-Carbon-Report-2019-12-05-Counting-Carbon-Costs-Climate-Change-and-NZX-Companies.pdf

11 December 2019 (The EU)
Communication

The EU published a communication on the *The European Green Deal*. 'It resets the Commission's commitment to tackling climate and environmental-related challenges that is this generation's defining task' and explains how the Commission 'will present a renewed sustainable finance strategy in the third quarter of 2020 that will focus on a number of actions'. In particular, it states:

> First, the strategy will strengthen the foundations for sustainable investment. This will require notably that the European Parliament and Council adopt the taxonomy for classifying environmentally sustainable activities. Sustainability should be further embedded into the corporate governance framework, as many companies still focus too much on short-term financial performance compared to their long-term development and sustainability aspects. At the same time, companies and financial institutions will need to increase their disclosure on climate and environmental data so that investors are fully informed about the sustainability of their investments. To this end, the Commission will review the Non-Financial Reporting Directive. **To ensure appropriate management of environmental risks and mitigation opportunities, and reduce related transaction costs, the Commission will also support businesses and other stakeholders in developing standardised natural capital accounting practices within the EU and internationally.** [Bold added][78]

12 December 2019 (McGuinness Institute)
Survey

On 16 and 17 October 2019, in partnership with the commercial law firm Simpson Grierson, the McGuinness Institute held the first two New Zealand TCFD workshops in Auckland and Wellington. The workshops explored practical steps for implementation of the TCFD recommendations. Given the high levels of interest in these workshops, the Institute prepared a survey that went out to attendees and the public to gather further insights on attitudes towards the TCFD, as well as what might be the most useful areas for potential workshops to cover next year.

It is crucial to gauge a sense of the experiences and expectations of preparers and users of the TCFD reporting framework in order to help with its implementation. While the sample size was small, the survey provided a valuable insight into the ways in which the framework is understood and viewed across a range of perspectives and what preparers and users need in order to help them implement the TCFD.

The *TCFD Survey* results are attached to this submission, and where appropriate, are mentioned in response to the specific questions posed in the *NZ Government Discussion Document*.

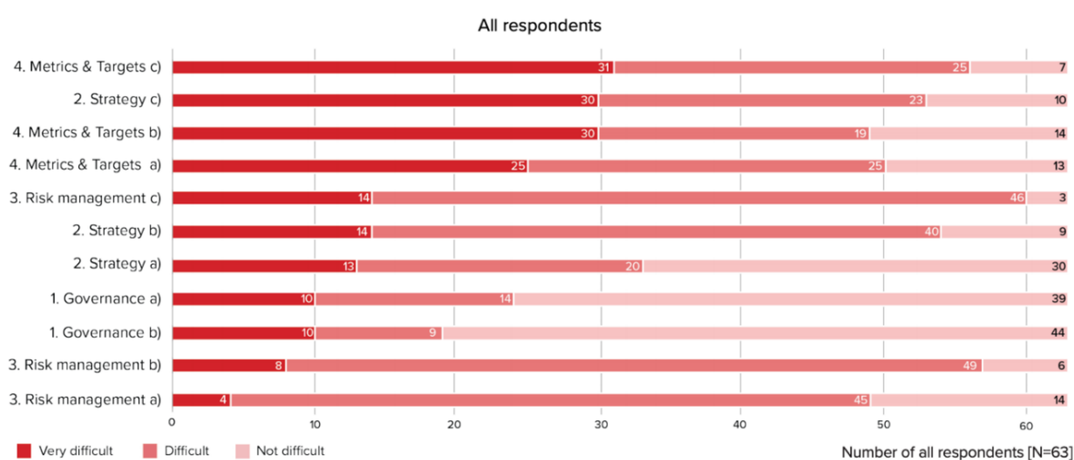
A key summary of findings are as follows:

- The number of climate change sceptics was low (1 person).
- Despite the survey's short response timeframe, overall engagement was excellent. 63 respondents answered all of the questions at a high quality and shared many comments, which included a wide range of thoughtful ideas and observations.

[78] Page 17, *Communication from the Commission to the European Parliament, The European Council, The Council, The European Economic and Social Committee and the Committee of the Regions – The European Green Deal*. See https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf

- The survey illustrated how people are becoming more interested, engaged and involved with climate-related reporting (and with TCFD). A number of respondents shared their support of the TCFD and expressed the importance of reporting from their perspectives of both risk and opportunities.
- Respondents had a strong view that total emissions, annual revenue, and total assets were key criteria to determine possible mandatory (comply-or-explain) TCFD reporting requirements. Number of employees was also reasonably high. See Figure 4. This suggests that a range of criteria may be appropriate, especially when applying the TCFD framework across different sectors.
- Survey responses varied based on whether or not respondents attended a TCFD workshop, however the variation was relatively small. An observed difference of interest was that respondents which attended a workshop considered 'Strategy' disclosures to be the most difficult to prepare and report on, whereas non-attendees ranked 'Metrics & Targets' to be the most difficult. Figure 17 below provides an overview of all respondents.

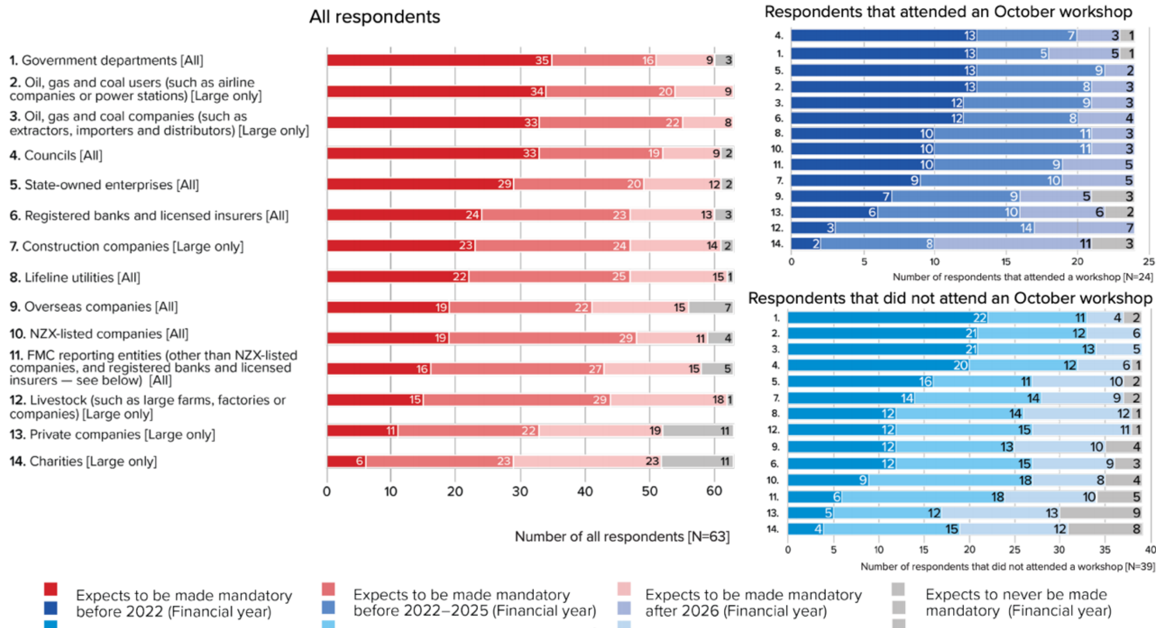
Figure 17: Extent respondents believed disclosures would be difficult (or not) to prepare[79]



Respondents believed that mandatory (comply-or-explain) TCFD reporting requirements will be implemented across most of the organisational types provided in the survey before 2025. Furthermore, respondents expected that government departments, oil, gas and coal users and companies, and councils would be among the first organisations required to report in their annual reports before 2022 (financial year). See Figure 18 overleaf.

[79] Page 5, *TCFD Survey 2019*. See http://www.mcguinnessinstitute.org/surveys/

Figure 18: Expectations of respondents in terms of mandatory reporting of TCFD[80]



24 December 2019 (Accountancy Europe)

Paper

Accountancy Europe published *Interconnected Standard Setting for Corporate Reporting*, a paper 'describing and calling for a global solution to interconnected standard-setting that can meet the need for reliable, consistent information in non-financial reporting that is interconnected with financial reporting'. The introduction to the paper noted:

> Global risks and opportunities mean that financial information alone cannot give a full picture of a company's performance. Climate change, environmental degradation, social unrest and internally generated intangibles are addressed by non-financial information (NFI) reporting. However, the hundreds of NFI reporting initiatives available are leading to confusion and the potential for greenwashing. For an effective response to these global issues and stakeholder demands, NFI reporting needs to be harmonised and interconnected with financial reporting.[81]

In this paper, Accountancy Europe set out an approach for a global corporate reporting structure as the ultimate vision for interconnected standard setting for corporate reporting (see Figure 19 overleaf).

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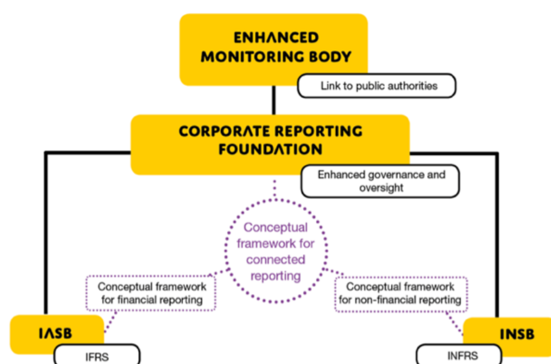
[80] Figure 1, Page 2, *TCFD Survey 2019*. See http://www.mcguinnessinstitute.org/surveys

[81] Page 1, *Interconnected Standard Setting for Corporate Reporting*. See https://www.accountancyeurope.eu/wp-content/uploads/191220-Future-of-Corporate-Reporting.pdf

Figure 19: A proposed global corporate reporting structure[82]



4.2 Upcoming McGuinness Research (2020)

(i) Working Paper 2020/01 – 'Directors' Report' Legislative Requirements: A review of New Zealand and other selected Commonwealth Jurisdictions (in press)

The Institute is undertaking further research in 2020 to prepare *Working Paper 2020/01 – 'Directors' Report' Legislative Requirements: A review of New Zealand and other selected Commonwealth Jurisdictions* (in press). The preliminary findings are as follows:

- The content of the directors' report is not specified in New Zealand legislation (the only comment in law refers to the board reporting in the annual report).[83]
- Part 8 of the Companies Act 1993 sets out the powers and duties of directors (see s 126, s 131 and s 137).
- The directors' report in New Zealand is often called the chair's report.
- The directors' Report does not need to be made public unless that entity it is listed on the NZX. In which case, it forms part of the annual report that is made available when uploaded onto the announcements on the NZX website (company announcements are available dating back to 2010). NZX-listed entities are also required to have their annual report publicly available on the company website for a period of five years under Section 2.13.3 of the *NZX Listing Rules 2019*.
- There is no institution or regulator responsible to provide quality assurance of directors' reports.

[82] Page 2, *Interconnected Standard Setting for Corporate Reporting*. See https://www.accountancyeurope.eu/wp-content/uploads/191220-Future-of-Corporate-Reporting.pdf

[83] Companies Act 1993

Section 211 – Contents of annual report

(1) Every annual report for a company must be in writing and be dated and, subject to subsection (3), must—

(a) describe, ***so far as the board believes is material*** for the shareholders to have an appreciation of the state of the company's affairs and will not be harmful to the business of the company or of any of its subsidiaries, any change during the accounting period in—

(i) the nature of the business of the company or any of its subsidiaries; or

(ii) the classes of business in which the company has an interest, whether as a shareholder of another company or otherwise; [Bold italics added]

- There is no institution or regulator responsible for providing guidance or an explanatory note regarding the content of directors' reports.
- Recommendations:
  - Require the link of company websites to be made available on the Companies Register and all companies listed on the NZX (this would be useful especially given the extent of which company names often change).
  - Adopt similar legislation to the UK that makes the content of the directors' report (see s 415 of the Companies Act 2006).

Given all of the above, we consider that New Zealand would benefit from a clearer and more centralised reporting framework to be stated in law. A way forward might be for the Financial Reporting Act 2013 to become a new 'External Reporting Act'. An External Reporting Act would allow for information contained in regulatory regular external reporting to become standardised and comparable across all entity types. This idea is explored further in another upcoming Institute publication, *Report 17 – Building a Reporting Framework Fit for Purpose* (discussed below).

(ii) Report 17 – Building a Reporting Framework Fit for Purpose (in press)

The McGuinness Institute publication *Report 17 – Building a Reporting Framework Fit for Purpose* (in press) covers more of these ideas in detail. *Report 17* will be published mid-2020. If you are interested in learning more, however, a draft version is available on the McGuinness Institute website under publications/*Project 2058* reports.

PART FIVE: LIST OF SPECIFIC QUESTIONS

Our responses to the specific questions are based on our view that the climate-related disclosures will be integrated and implemented using the existing legislative and reporting framework, with the XRB issuing standards and/or guidance to support the legislative requirements. In answering these questions, we go beyond the focus of the *NZ Government Discussion Document* and instead propose a regime that would work for both the public and private sectors. Our approach works with and builds on the recent changes to the Climate Change Response Act 2002 and suggests a regime that would apply to both the public and private sectors.

Chapter 1: The context

Q1: Is the TCFD reporting framework the most appropriate framework for New Zealand?

Yes: We believe the TCFD framework[84] is the most appropriate framework for reporting climate-related financial disclosures in New Zealand.[85]

There is a proliferation of voluntary sustainability and other Environmental, Social and Governance (ESG) frameworks. However, they serve different purposes and audiences. Many of these other frameworks also have different content elements and use different terminology. In the absence of a requirement to apply one mandatory framework, users will have (i) to work harder to understand and interpret a diverse range of reports types, formats and data and (ii) to accept that reports may contain incomplete or inaccurate data and high levels of greenwash. The resulting information is likely to be inconsistent and not comparable within an industry over time or between industries at one point of time.

The TCFD framework is appropriate as it is a principles-based framework and does not set out detailed 'rules' or specifications that are required to be applied by an entity. It can be applied and adapted by different entity types, industries and sectors to suit their particular circumstances and needs. The TCFD recommended disclosures will enable consistent and comparable disclosures by entities.

The TCFD framework is also useful in that it requires entities to assess both risks and opportunities. This means that not only will entities need to assess the impact of climate on their business, but it also requires entities to assess avenues of future opportunities, thereby helping entities to adapt and transform to ensure future viability.

The TCFD framework is also appropriate as its core elements (governance, strategy, risk management, and metrics and targets) represent how organizations operate and provides the context to their performance as a result of climate change. The order is extremely important. Governance and Strategy disclosures require governing bodies to engage and to take a longer view in dealing with climate-related matters. Risk Management and Metrics & Targets require the entity to take action in relation to managing, measuring and reporting on the impacts of climate-related risks.

We have observed that only one of the 11 TCFD disclosures use the term 'board' and none use the term 'company' – the TCFD disclosures instead use the term 'organisation'. As many public sector organisations do have boards or their equivalents, we believe the TCFD could, as it currently exists, be

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[84] See Section 6.5, page 72, *Discussion Paper 2019/01* for a more detailed account of our views on the TCFD. See http://www.mcguinnessinstitute.org/discussion-papers

[85] See Section 7.2, page 81, *Discussion Paper 2019/01* for our analysis of the role of the IASB in relation to setting standards for climate-related matters. See http://www.mcguinnessinstitute.org/discussion-papers

applied to both the public and private sector and that one framework could be used for all selected entities. However, we suggest the public sector could add further disclosures to the TCFD – a form of 'TCFD plus' – using the Double Materiality Perspective (see our thinking in Question 2).

Lastly, the TCFD includes metrics on carbon emissions and many economists and policy analysts consider a carbon tax is a key mechanism that countries should be using to reduce emissions. This may be part of the reason 12,000 entities in the UK are now required to publish carbon metrics in their directors' report (see discussion in Section 2.1).

Q2: Do you agree with the conclusions we have drawn at the end of chapter 1?

Yes: We agree with the conclusions set out at the end of Chapter 1, but we would like to raise a further point in terms of para 48.3 (*Climate change is not material to every company of scale. However, it is not possible to know that without first testing the proposition).* We believe all businesses sit within an ecosystem. They have upstream activities (such as suppliers, electricity and plant) and downstream activities (such as retailers, consumers and councils) and they employ people that belong to families and communities (some of whom will be directly affected by climate change such as floods, extreme weather events etc.). Therefore, although it is correct to say that not every business will be directly affected, the indirect physical and transitional risks and opportunities, in terms of how consumers and citizens respond to climate change, are likely to be material to all businesses over the next ten years. It is therefore a question of the degree of certainty and the timing of those effects (as noted in the *NZ Government Discussion Document*) but also how materiality is defined (see, for example, the range of definitions of materiality that currently exist in Table 3 later in this submission).

As an example, the Institute has prepared a very tentative carbon assessment and life-cycle analysis of New Zealand King Salmon (NZKS), a company listed on the NZX. See Figure 20 below. This indicates that NZKS's salmon production may have a significant carbon footprint, at least as large as chicken productionand may be a great deal larger due to imports of feed.[86] Also of note, in contrast to our European counterparts, New Zealand sheep and cattle import little feed (instead we grow our own), meaning global protein comparisons are likely to be flawed. This illustrates the need for a case-by-case assessment and the dangers of relying on global data where businesses may operate very different business models but produce similar outputs.

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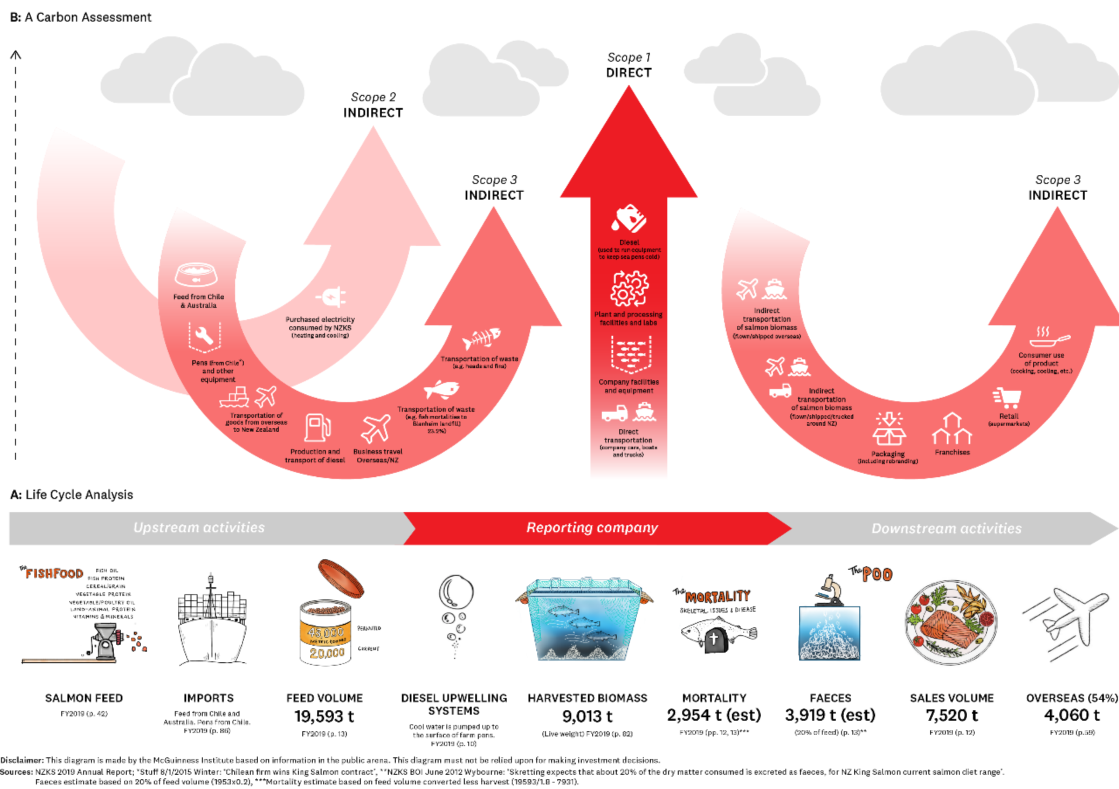
[86] Fairr, a collaborative Investor network, released the 2019 *Fairr Coller Protein Producer Index Report* which found that, out of the fifteen aquaculture companies included in the index, 'on average, fish feed accounts for around 87% of GHG emissions in Atlantic salmon production. However, none of the companies have a Scope 3 emissions-reduction target'. The report also found in a life-cycle analysis conducted in 2019 that 'farmed Atlantic salmon production is more GHG-intensive than chicken production'. If we consider this information when assessing King Salmon, we also need to take into account New Zealand's unique geographical location and the additional emissions resulting from extended travel time via ships and planes when importing feed and exporting product. See https://www.fairr.org/index/protein-types/aquaculture

Figure 20: NZKS Life Cycle Analysis and Carbon Assessment – an external perspective[87]



NZKS's 2019 annual report (see excerpt from their annual report in Figure 21 overleaf) implies a small carbon footprint in contrast with other protein providers. They reference the Global Salmon Initiative, which references a very early piece of research that attempts to compare the carbon footprint of one protein against another. However, unlike its northern counterparts (such as Norway), NZKS's current business model imports feed and pens from Chile (upstream activities) and exports salmon (54%) to countries like South America (downstream activities).

New Zealand companies will need be particularly careful to assess their carbon emissions on a case-by-case basis and ensure information contained in their annual report is not unintentionally misleading. This is why audited information, in particular, information published in an annual report should be filed (and therefore publicly available and where appropriate, publicly critiqued). This will help boards, investor's and other primary users learn about the risks and opportunities that exist in their current business model and how they can optimise this going forward.[88]

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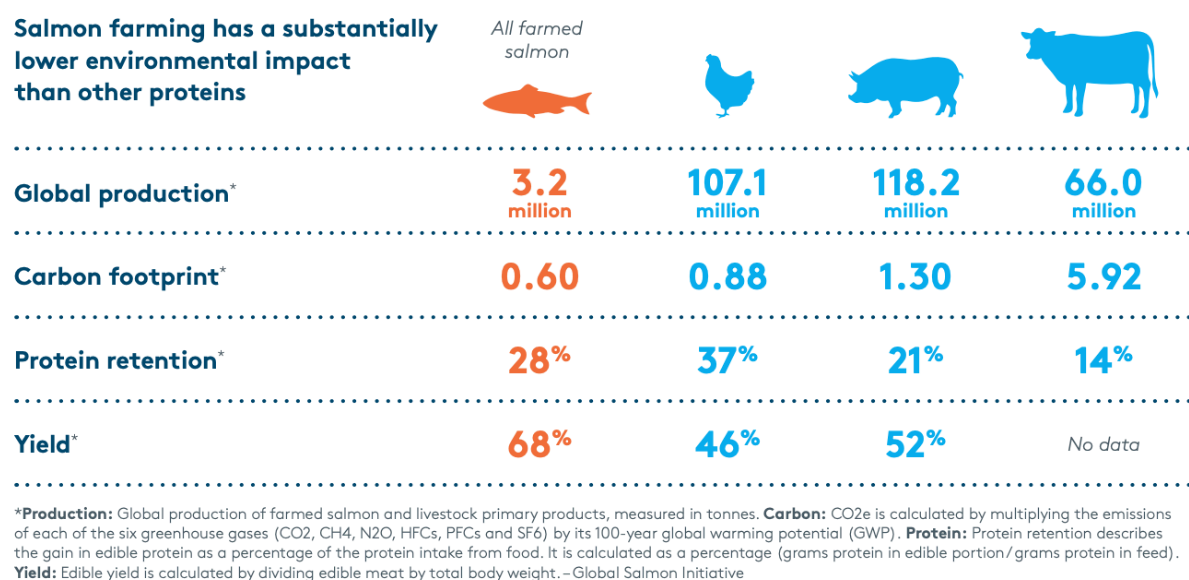
[87] Infographic prepared by the McGuinness Institute (sources are indicated on the infographic).

[88] Note: For example: Hilborn et al (2018) (whom the 'Global Salmon Initiative' website references), states:

- 'All food production has environmental costs, which differ greatly between different types of animal protein
- Most of the environmental costs derive from fertilizer used in feed production, fuel for fishing boats, and circulation of water in aquaculture
- The lowest impact forms of animal protein come from species that feed naturally in the ocean and that can be harvested with low fuel requirements
- Public policy should explicitly consider the relative environmental costs of food production when regulations are being developed' [and] …

'More work should also be done on comparing the impacts of different production methods on biodiversity, particularly for systems associated with livestock feed production. With such assessments available, it will become possible for responsible policy advocates to target their efforts not just on the cause of the moment, but on the elements of food production methods that are the most environmentally

Figure 21: Excerpt from NZKS 2019 Annual Report[89]



In our view, climate change is likely to affect every business, but at this early stage the effects are not well understood, and the financial impacts are difficult to assess (this is further supported by Meridian's comment discussed in Question 41). Given New Zealand's distance from upstream activities (e.g. suppliers) and downstream activities (e.g. consumers), New Zealand must review its carbon footprint on a case by case basis; hence, as stated in the *NZ Government Discussion Document*, it is not possible to know the extent of climate-related financial impacts without first testing the proposition (page 20).

Further, we wanted to draw your attention to the EU 'double materiality perspective', see Figure 22 overleaf, and the need for not only entities, but the government to create strategies that optimize the impacts of climate change on their operations. TCFD for business focuses on the left box (financial materiality). However, the right box in Figure 22 (environmental and sociality materiality) focuses on the public sector and in particular how to create public policy (and in particular regulation) to improve outcomes.

Firstly, it is important to note that the link between these two types of materially are very interlinked, and good quality reporting in the first area (financial materiality) will lead to better policy in terms of the second (environmental and society materiality). Secondly, good public policy delivers better outcomes for the first area – and so on.

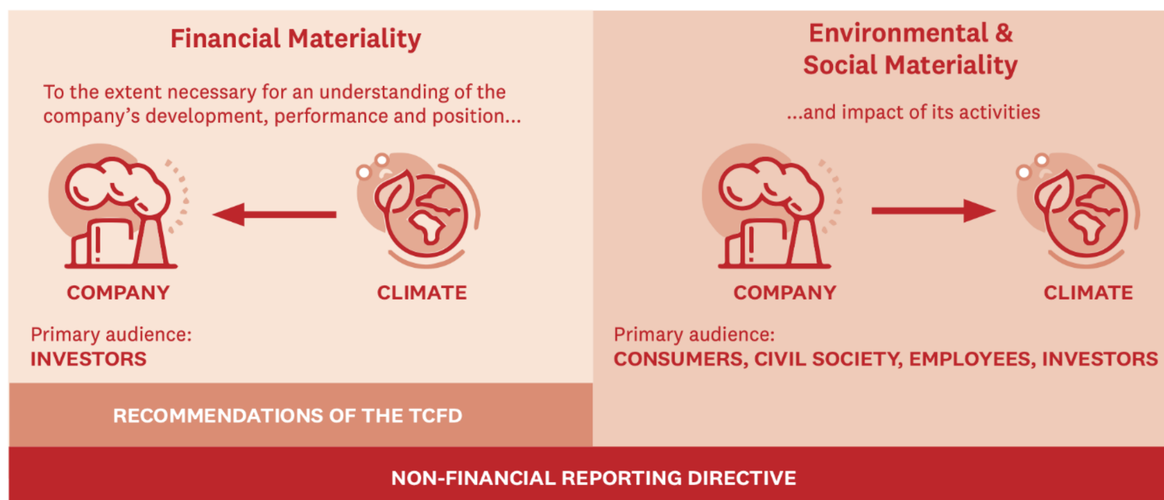
For this reason, we also include research from our *GDS Index* (GDS stands for Government Department Strategies). In Figure 23 (overleaf) we illustrate the need for the New Zealand Government to develop a climate strategy for New Zealand; one that provides not only a vision of what the future might look like but how to get there. Business and citizens need certainty. Although certainty is not possible, providing a

damaging.' See https://globalsalmoninitiative.org/files/documents/The-environmental-cost-of-animal-source-foods.pdf or https://esajournals.onlinelibrary.wiley.com/doi/full/10.1002/fee.1822

[89] Page 31, *Blue Frontiers: New Zealand King Salmon 2019 Annual Report*. See https://198i9o1t5qhfqwhf2z86x4y1-wpengine.netdna-ssl.com/wp-content/uploads/2019/09/FY19-Annual-Report.pdf

general sense of what a low-emission economy for New Zealand might look like and how to get there is, in our view, achievable.

Figure 22: Double Materiality Perspective[90]



[90] See https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

Figure 23: Climate Change Strategy Wheel[91]

- No single climate change strategy exists within a single document. 30 out of the 36 strategies that do mention climate change have been published from 2010 onwards, showing an increasing trend in the mention of climate change in strategy documents.
- Climate change is mentioned in the majority of sectors. However, the frequency decreased from the central core of the strategy wheel moving outward.
- The sector with the most mentions of strategy regarding climate change was the environment sector (11).
- The sectors with the fewest mentions of strategy surrounding climate change were the education and workforce sector, and the health sector (1 each). None of the justice, Māori affairs, and social services sectors published GDSs that mentioned climate change.[92]

There are a number of ways the FSB's TCFD could be expanded to cater for other reporting needs. Figure 24 puts forward a few ideas for consideration. In the first column, there is only one disclosure that needs to be extended to allow for public benefit entities – making the first four rows able to be applied across both the for-profit and public benefit entities. It also includes a further column (in yellow) on the right and calls these the 'environmental and social materiality' disclosures.

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[91] Page 43, *Working Paper 2019/04: Analysis of Government Department Strategies between 1 July 1994 and 31 December 2018*. See http://www.mcguinnessinstitute.org/wp-content/uploads/2019/09/20190923-GDS-Analysis-working-paper.pdf

[92] Page 43, *Working Paper 2019/04: Analysis of Government Department Strategies between 1 July 1994 and 31 December 2018*. See http://www.mcguinnessinstitute.org/wp-content/uploads/2019/09/20190923-GDS-Analysis-working-paper.pdf

Figure 24 is work in progress, but it does indicate how the FSB's TCFD could be extended to cover 'public benefit entities' and expanded to cover 'environmental and social materiality'– enabling for example, a specific NZ TCFD-based standard/s that enables for-profit entities and public benefit entities to align with FSB's TCFD and public benefit entities to expand the FSB's TCFD to be unique for New Zealand's needs (such as introducing the concept of stewardship and in particular, kaitiakitanga).

Figure 24: Explores what could be added to the TCFD to contribute to better 'environmental and social materiality'[93]

EU: Financial Materiality				EU: Environmental & Social Materiality
TCFD: Task Force on Climate-related Financial Disclosures				Further tentative disclosures ?
Governance	Strategy	Risk Management	Metrics & Targets	Strategy, Metrics & Targets
Disclose the organisation's governance around climate-related risks and opportunities.	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.	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Disclose any national impacts, Scope 3 metrics and the actual strategy the organisation is applying to meet national targets where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities [or Government's oversight] [B]	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. [B]	a) Describe the organisation's processes for identifying and assessing climate-related risks. [B]	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. [B]	a) Describe national impacts if the organisation fails to meet national targets. [B]
b) Describe management's role in assessing and managing climate-related risks and opportunities. [B]	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. [B]	b) Describe the organisation's processes for managing climate related risks. [B]	b) Disclose Scope 1, Scope 2, and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks. [B]	b) Disclose Scope 3 greenhouse gas (GHG) emissions [in addition to Scope 1 and Scope 2, see Metrics & Targets column b)]. [B]
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. [B]	c) Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organisation's overall risk management. [B]	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. [B]	c) Describe the organisation's 2050 strategy to Paris, taking into consideration different climate-related scenarios, including a 1.5°C and a 3°C scenario [in addition to 2°C, see Strategy column c)]. [B]

PB Public benefit only   FP For-profit only   B Both For-profit and Public benefit entities

[93] Figure 4: Recommendations and Supporting Recommended Disclosures (adapted by McGuinness Institute – adaptions are in red font and/or the additional yellow column), Page 14, *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures*. See https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

Chapter 2: Objective and problem definition

Q3: Do you agree with the objective: 'The Government's objective is to move to a position where the effects of climate change become routinely considered in business and investment decisions in New Zealand. This can be achieved when businesses that participate in financial markets disclose clear, comparable, consistent, timely and understandable information about the risks and opportunities presented by climate change.'

Yes: We agree with the first sentence but consider the second sentence is too narrow – more than financial markets are required to bring about the necessary change desired in the first sentence.

A focus on financial markets, although extremely important, will not be sufficient to move the economy at the pace and breadth necessary to deliver the benefits that will accrue to those countries that move quickly to a low-emissions economy. If New Zealand specializes in the supply of low-carbon products and services, it will in practice deliver products and services that the rest of the world will require and therefore demand. The only technological disruption that could change this outcome would be if carbon dioxide removal (CDR) was:

(i) Feasible (i.e. invented);
(ii) Able to be scaled (i.e. in such a way that would enable society to continue to pollute the astrosphere at lower levels than we are currently doing so); and
(iii) Costs of scaling were less than the alternative (i.e. living within carbon limits by living in an economy with low-carbon goods and services). Our understanding this is extremely unlikely, hence why New Zealand should focus on developing low-carbon goods and services.

We consider it important that entities routinely and specifically consider, identify and include climate change risks into their business and investment decisions. We consider that climate change risks are no different from other risks that an entity currently has to consider in conducting its operations.

To ensure investors and capital providers are well-informed when making their investment decisions, it is important for businesses that participate in financial markets to disclose clear, comparable, consistent, timely and understandable information about the risks and opportunities presented by climate change. To this end, the Institute is of the view that it is also necessary to improve the quality and accessibility of climate-specific information in New Zealand.[94]

Q4: Should other objectives also be considered?

Yes: We agree with the objective stated in Q3 – moving to a position where the effects of climate change are routinely considered in business and investment decisions by entities that participate in financial markets. However, we consider that a broader objective is required – to move to a position where the effects of climate change are routinely considered by all major businesses. In our view all businesses to some degree interact with financial markets, and more importantly, New Zealand needs boards to access their business models in order to grow our economy in the right direction (adaptation) and to reduce carbon emissions and our shortfall to meet our *Paris Agreement* obligations (mitigation).

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[94] See Section 8.1, page 92, *Discussion Paper 2019/01* on Goal 1: Improve the quality and accessibility of climate-specific information in New Zealand. See http://www.mcguinnessinstitute.org/discussion-papers

Q5: Do you agree with the problem definition? Are there other aspects we should consider?

Yes: We agree with the problem definition. In particular, we agree with the comments set out under '*The status quo is not delivering information at the required pace* and *the challenges of the status quo on disclosure'*.

We consider that the above problems were aggravated by an absence of an internationally agreed international framework specific to climate-related financial matters and the emergence of a variety of diverse and inconsistent voluntary reporting protocols. This may now be addressed by the increasing international acceptance of the TCFD framework, thereby providing a useful first step towards better consideration and disclosure of climate-related risks and opportunities. The TCFD framework will enable entities to adapt the framework for their own circumstances and subsequently produce consistent and comparable information.

Moreover, the Institute considers that the current reporting system does not provide a solid foundation for climate-reporting. Even if an entity were to disclose their climate-related financial information as part of the annual report, there are no legal requirements for the annual report to be made public or publicly filed. Our view is that this is a crucial failure in ensuring accessibility of the information.[95]

Q6: What are the implications of section 211 of the Companies Act 1993 for the disclosure of material climate-related information in annual reports?

The Institute has always been a strong supporter of using this section to require a *Statement of Climate Information* in annual reports. However, the recent amendments to the Climate Change Response Act 2002 may provide a better alternative. We discuss the pros and cons below.

We acknowledge using s 211 of the Companies Act 1993 alone for the disclosure of material climate-related information in annual reports has limitations.[96] Under s 211, directors determine what they believe

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[95] See Section 7.7, page 89, *Discussion Paper 2019/01* on Observations and ideas. See http://www.mcguinnessinstitute.org/discussion-papers

[96] Companies Act 1993

Section 211: Contents of annual report

(1) Every annual report for a company must be in writing and be dated and, subject to subsection (3), must—

(a) describe, so far as the board believes is material for the shareholders to have an appreciation of the state of the company's affairs and will not be harmful to the business of the company or of any of its subsidiaries, any change during the accounting period in—

(i) the nature of the business of the company or any of its subsidiaries; or

(ii) the classes of business in which the company has an interest, whether as a shareholder of another company or otherwise; and

(b) include any financial statements or group financial statements for the accounting period that are required to be prepared under Part 11, Part 7 of the Financial Markets Conduct Act 2013, or any other enactment (if any); and

(c) if an auditor's report is required under Part 11, Part 7 of the Financial Markets Conduct Act 2013, or any other enactment in relation to the financial statements or group financial statements included in the report, include that auditor's report; and

(d) [Repealed]

(e) state particulars of entries in the interests register made during the accounting period; and

(f) state, in respect of each director or former director of the company, the total of the remuneration and the value of other benefits received by that director or former director from the company during the accounting period; and

(g) state the number of employees or former employees of the company, not being directors of the company, who, during the accounting period, received remuneration and any other benefits in their capacity as employees, the value of which was or exceeded $100,000 per annum, and must state the number of such employees or former employees in brackets of $10,000; and

(h) state the total amount of donations made by the company during the accounting period; and

(i) state the names of the persons holding office as directors of the company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the company during the accounting period; and

(j) state the amounts payable by the company to the person or firm holding office as auditor of the company as audit fees and, as a separate item, fees payable by the company for other services provided by that person or firm; and

(k) be signed on behalf of the board by 2 directors of the company or, if the company has only 1 director, by that director.

is material information and will not be harmful to the business of the company. Even if directors use the section to address climate-related matters, the disclosures may not be consistent or comparable, in the absence of more specific requirements or the imposition of a particular framework.

Section 211 is also weakened by the ability of shareholders of certain companies to opt out of some of the disclosures. Research undertaken by the Institute and presented in *Working Paper 2018/01 – NZX Tables* found that the concessions of s 211(3) were applied by 83 companies on the Deloitte Top 200 in 2016 (43% of the Deloitte Top 200 applied the concessions of s 211(3) in their 2016 annual report).[97] This is nearly half of New Zealand's largest companies choosing to opt out of disclosing what we consider to be very minimal information.[98] Given the ability for companies to withhold information using the concessions available under s 211(3) of the Companies Act, large private companies may take advantage of these concessions, which allows them to refrain from disclosing almost all of the content required under s 211(1). This is particularly relevant to New Zealand subsidiaries to overseas entities which, as mentioned in Section 2: Rationale of this submission, make up a number of our heaviest emitters (such as BP, Methanex and ExxonMobil). This may enable some significant companies to avoid disclosing climate information. Hence, drafting this section to include a *Statement of Climate Information* has its challenges.

We also had concerns that if s 211 was amended, amendments for other entity-specific legislation may also be required. This would need to be explored further.

In comparison, the benefit of placing the *Statement of Climate Information* requirement in the Climate Change Response Act 2002 is that it would apply across a range of selected entities and as such deliver a cost-effective and aligned standard-setting and regulatory process. Such an approach must be beneficial for preparers and users, as the distinction between entities is becoming increasing blurred (e.g. Auckland Council on the NZX) and the *Statement*'s purpose can be anchored in the purpose of the Climate Change Response Act.

Given this background, we are undecided whether s 211 of the Companies Act 1993 should be amended 'to include a *Statement of Climate Information'* in an annual report. We believe this section of the Act requires a major review, particularly in terms of strengthening the purpose and content of a directors' report, the nature and purpose of the company, the need to list any 'political' donations and the desire to tighten the exemption. In our view, the emerging practice of combining a Chair's report with the Chief Executive's report muddies the water between strategic and operational thinking and more importantly works against the separation of powers between the Chairperson and the Chief Executive (as advocated in the UK's Cadbury Committee report).[99] These issues will be discussed further in our upcoming publication *Report 17*. In the meantime, we rely on the legal expertise of others to see if an amendment to s 211 is necessary

(2) A company that is required to include group financial statements in its annual report must include, in relation to its subsidiaries, the information specified in paragraphs (e) to (j) of subsection (1).

(3) The annual report of a company need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) if shareholders who together hold at least 95% of the voting shares (within the meaning of section 198) agree that the report need not do so.

[97] Page 22, *Working Paper 2018/03 – NZSX-listed Company Tables*. See http://www.mcguinnessinstitute.org/working-papers

[98] See Section 4.3, page 36, *Discussion Paper 2019/01* for further discussion on the chair's report. See http://www.mcguinnessinstitute.org/discussion-papers

[99] *Report of the Committee on the Financial Aspects of Corporate Governance*. See http://cadbury.cjbs.archios.info/report

or whether we can rely simply on a new part to the Climate Change Response Act 2002 (see Box 1 below).

Q7: What are the implications of the NZX Listing Rules for the disclosure of material climate-related information by (a) equity issuers, and (b) debt issuers?

Using the *NZX Listing Rules* for the disclosure of material climate-related information by (a) equity issuers, and (b) debt issuers have many limitations – see discussion in Question 11.

New Zealand's stock exchange is a relatively small market consisting of mostly New Zealand or Australian companies. Research from our *Working Paper 2018/01* indicated that 33% [42] of companies listed on the NZX are also on the Australian Stock Exchange.[100] However, as at December 2019, 14 New Zealand-based companies are only listed on the ASX.[101] Requiring reporting through the *NZX Listing Rules* will not pick up those 14 companies.

Outside of the XRB, NZX is the only other setter of mandatory reporting requirements (through their Listing Rules).

NZX *Listing Rules* only apply to listed equity and debt issuers (although there may be upstream and downstream affects due to changes in the rules) and do not directly apply to unlisted entities and other disclosing entities that are within the scope of the proposed TCFD regime.

Importantly even if the *NZX Listing Rules* were amended to include mandatory (comply or explain) climate-related financial disclosures, they would only cover NZX listed companies. If this route was adopted, it may also lead to unintended consequences such as NZX-listed companies moving away from NZX to ASX or companies deciding to list with ASX only. Further, the *FMA Corporate governance in New Zealand Principles and guidelines* (the *Corporate Governance Handbook*) is a guide rather than mandatory, and therefore could not require mandatory reporting.[102] Together, this helps explain why our interest in the XRB being the primary standard and guidance setter for all regular external climate-related information.

If the *NZX Listing Rules* were amended to require mandatory reporting, the New Zealand Government would still need to pass legislation relevant to other entity types to ensure the same types of disclosures were disclosed across a range of entities. This approach would lead to a disjointed and ad hoc approach.

The Institute has always been uncomfortable with the perceived conflict that arises with the NZX (the regulator) being listed on the NZX (the list). This in effect puts in place a situation where the regulator writes rules for itself. Currently, the *Corporate Governance Handbook* excludes NZX-listed entities.

Given the reasons above, we recommend that all climate-related standards and guidance should be prepared by the XRB. Otherwise an ad hoc and disjointed system will develop (e.g. something like the EPA to set requirements for group 1, MfE to set requirements for group 2 and FMA/NZX and possibly MfE to set requirements for group 3. See Section 2 of this submission for the discussion of the groups.).

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[100] Page 17, *Working Paper 2018/01 – NZSX-listed Tables*. See http://www.mcguinnessinstitute.org/working-papers

[101] See https://www.asx.com.au/prices/new_zealand_based_companies.htm

[102] See https://www.fma.govt.nz/compliance/guidance-library/corporate-governance-in-new-zealand-principles-and-guidelines

Q8: How should proposed adaptation reporting under the Climate Change Response (Zero Carbon) Amendment Bill and the climate-related financial reporting disclosures proposed in this discussion document best work together?

We consider adaptation reporting under the Climate Change Response Act 2002 and the climate-related financial reporting disclosures proposed in this *NZ Government Discussion Document* work well together.

The recent changes to the Climate Change Response Act 2002 identified a critical group of entities. Without this group being identified in law it would not have been possible to define the three groups that make up the 'External Climate Reporting Organisations' set out in our proposal. See our recommendations in grey Boxes 1 and 2 below.

This will align public and private sector reporting practices and ensure that consistent and comparable information is obtained from both sectors. Aligning external reporting obligations on both the public and private sector entities is important because some entities (for example, Auckland Council as a listed debt issuer and the listed energy companies that are state-owned-enterprise (SOEs)) are reporting organisations under the Climate Change Response Act 2002 as well as a disclosing entities under the proposals in the *NZ Government Discussion Document*. If the reporting was not aligned, those entities that are in both sectors may have inconsistent and/or duplicated disclosure requirements imposed on them.

Under s 5ZW of the Climate Change Response Act 2002, the Minister or Commission may request adaptation information from the reporting organisations. It is desirable that the reporting organisations have access to some standard and/or guidance to prepare the information in readiness for any such requests. It would also be desirable for any standard and/or guidance to be the same as those for the disclosing entities in the private sector to ensure common information is provided by entities in both sectors and to avoid inconsistent and/or duplicated disclosures.

We propose that a new Part 6 be added to the Climate Change Response Act 2002 on External Reporting on mitigation and adaptation that will list three types of External Climate Reporting Organisations. See discussion in Box 1 overleaf. Over time, if appropriate, new types of organisations could be added to this list.

Under our proposal, the high-level requirements for a *Statement of Climate Information* and the four core elements of the TCFD framework would be set out in the Climate Change Response Act 2002, with a provision for the climate-related financial disclosures to be addressed in a standard issued by the XRB. The XRB can then set the necessary reporting standard (and/or other guidance) to support the legislative requirements. Having an authoritative standard from the XRB will ensure that information on climate-related matters from both the private and public sectors are aligned, consistent and comparable.

As we note in Appendix 3, we explored a range of options by looking at the relevant legislation. We came to the view that XRB was the best organisation, primarily because it did not make sense for any other organisation to create a financial standard without the expertise and oversight of an experienced standard setter – one that appreciates all the nuances of the existing 'overly complex' financial system and that has good relationships and connections with its international counterparts. Separating the responsibility for New Zealand's financial reporting strategy between XRB and another entity seems expensive, illogical and will add a layer of unnecessary risk – at a time when we want reporting to help deliver financial stability.

We do believe that the relationship between the Companies Act, the Financial Reporting Act and a number of other pieces of legislation could be reviewed and simplified, ideally over the next few years. An example of this would be creating an External Reporting Act (to replace the Financial Reporting Act), though this needs to be undertaken carefully and with much thought, in order to simplify the system without doing harm.

Our approach is to require a *Statement of Climate Information* in the Climate Change Response Act 2002 (the 'what') and strengthen the role of XRB as the standard setter in the Financial Reporting Act 2013 (the 'how').

Box 1 below contains a summary of the amendments we suggest for the Climate Change Response Act 2002.

Box 1: Climate Change Response Act 2002
Suggested new part (e.g. Part 6)

Part 6: External Reporting on mitigation and adaptation

New section: External Climate Reporting Organisations

(1) For the purposes of this section, the following are **external climate reporting organisations**:

(a) Participants of the New Zealand Emissions Trading Scheme (ETS) listed under section 54 of the Climate Change Response Act 2002;[103]
(b) Reporting organisations as listed in 5ZW(8) of the Climate Change Response Act 2002;[104] and
(c) XRB Tier 1 for-profit entities and public benefit entities.

New section: Statement of Climate Information

(1) Every reporting organisation must prepare an audited annual Statement of Climate Information to be disclosed in the annual report of the reporting organisation;
(2) The Statement of Climate Information must comply with a reporting standard and assurance standard issued by the External Reporting Board; and

[103] Climate Change Response Act 2002
Section 54: Participants
(1) A person is a participant, —
(a) in respect of an activity listed in Schedule 3, if the person—
(i) is required under section 180, 204, or 213 to be treated as the person carrying out the activity; or
(ii) if subparagraph (i) does not apply, carries out the activity; and
(b) in relation to an activity listed in Schedule 4, if the person—
(i) carries out the activity, is registered as a participant under section 57 in respect of the activity, and that registration has taken effect; or (ii) becomes a participant under section 192 in respect of the activity and is not removed from the register in respect of that activity.

[104] Climate Change Response Act 2002
Section 5ZW: Minister or Commission may request certain organisations to provide information on climate change adaptation
(8) For the purposes of this section and section 5ZX, the following are reporting organisations:
(a) the Public Service, as defined in section 27 of the State Sector Act 1988:
(b) local authorities, as defined in section 5(1) of the Local Government Act 2002:
(c) council-controlled organisations, as defined in section 6(1) of the Local Government Act 2002:
(d) Crown entities, as defined in section 7(1) of the Crown Entities Act 2004, but excluding school boards of trustees:
(e) companies listed in Schedule 4A of the Public Finance Act 1989:
(f) organisations listed in Schedule 1 of the State-Owned Enterprises Act 1986:
(g) lifeline utilities listed in Schedule 1 of the Civil Defence Emergency Management Act 2002:
(h) the New Zealand Police:
(i) the New Zealand Defence Force.

(3)	The Statement of Climate Information must include:
(a)	a description of the organisation's governance in relation to the risks of, and opportunities arising from, climate change;
(b)	a description of the actual and potential effects of the risks and opportunities on the organisation's business, strategy, and financial planning;
(c)	a description of the processes that the organisation uses to identify, assess, and manage the risks;
(d)	a description of the metrics and targets used to assess and manage the risks and opportunities, including, if relevant, time frames and progress (including emissions); and
(e)	any matters specified in the financial or non-financial reporting standards. [underlined new]

For the XRB to issue standards relating to climate-related matters, it will need to be authorized to do so under s 17(2) of the Financial Reporting Act 2013. Embedding the core elements of the TCFD framework in law means that the XRB will have a role in determining which aspect of the TCFD disclosures fall with financial statements, management commentary and/or outside their remit in other parts of the annual report.

Having a standard/s on climate-related disclosures (e.g. a NZ TCFD-based standard) issued by the XRB will ensure all financial reporting matters are set by a single body. It will also ensure that related financial disclosures are coherent, consistent with existing accounting requirements, avoiding duplication and information overload, as well as ensuring the widest coverage of entities as XRB standards are applicable to all entity types required by legislation to prepare financial statements that comply with XRB standards.

Unlike the RBNZ, the FMA and NZX, the XRB is a standard-setter and does not play the role of a regulator of the entities within its remit. We think such a separation of duties is important to ensure high quality standards of disclosure and robust oversight of compliance by the entities. See also our responses to Question 21 and Question 35.

Chapter 4: Directors' legal obligations and climate change

Q9: Do directors' legal obligations in New Zealand result in consideration, identification, management and disclosure of climate-related risks?

We consider that directors' legal obligations in New Zealand would result in consideration, identification, and management of climate-related risks but not necessarily disclosure.

Section 137 of the Companies Act 1993 outlines the director's duty of care. These duties are broad and allow for any number of risks to be captured within it. However, given that disclosures by the directors under s 211 of the Companies Act 1993 are defined by 'what the board believes to be material', this potentially allows for the directors to consider climate change, but not necessarily report on or act on any of the considerations. Therefore, a specific requirement to consider such risks through a *Statement of Climate Information*, and for that *Statement* to be signed by two directors,[105] is likely to be more effective in ensuring disclosure is common practice.

[105] Note: Along the lines of financial statements. In New Zealand 'financial statements must be signed by 2 directors, or 1 if the company only has 1 director. See https://companies-register.companiesoffice.govt.nz/help-centre/financial-reporting/preparing-financial-statements

As noted earlier, we would like to see the content of a directors' report specified in legislation, like in the UK's Companies Act 2006.[106] See our upcoming *Working Paper 2020/01*.

[106] Companies Act 2006 (UK)

Section 414C: Contents of strategic report

(1) The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

(2) The strategic report must contain—

(a)a fair review of the company's business, and

(b)a description of the principal risks and uncertainties facing the company.

[F3Section 414CZA (section 172(1) statement) and sections 414CA and 414CB (non-financial information statement) make further provision about the contents of a strategic report.]

(3) The review required is a balanced and comprehensive analysis of—

(a)the development and performance of the company's business during the financial year, and

(b)the position of the company's business at the end of that year,

consistent with the size and complexity of the business.

(4) The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—

(a)analysis using financial key performance indicators, and

(b)where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

(5) In subsection (4), "key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.

(6) Where a company qualifies as medium-sized in relation to a financial year (see sections 465 to 467), the review for the year need not comply with the requirements of subsection (4) so far as they relate to non-financial information.

(7) In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include—

(a)the main trends and factors likely to affect the future development, performance and position of the company's business, and

(b)information about—

(i)environmental matters (including the impact of the company's business on the environment),

(ii)the company's employees, and

(iii)social, community and human rights issues,

including information about any policies of the company in relation to those matters and the effectiveness of those policies.

If the report does not contain information of each kind mentioned in paragraphs (b)(i), (ii) and (iii), it must state which of those kinds of information it does not contain.

(8) In the case of a quoted company the strategic report must include—

(a)a description of the company's strategy,

(b)a description of the company's business model,

(c)a breakdown showing at the end of the financial year—

(i)the number of persons of each sex who were directors of the company;

(ii)the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)); and

(iii)the number of persons of each sex who were employees of the company.

(9) In subsection (8), "senior manager" means a person who—

(a)has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company, and

(b)is an employee of the company.

(10) In relation to a group strategic report—

(a)the reference to the company in subsection (8)(c)(i) is to the parent company; and

(b)the breakdown required by subsection (8)(c)(ii) must include the number of persons of each sex who were the directors of the undertakings included in the consolidation.

(11) The strategic report may also contain such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the directors' report as the directors consider are of strategic importance to the company.

(12) The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.

(13) Subject to paragraph (10), in relation to a group strategic report this section has effect as if the references to the company were references to the undertakings included in the consolidation.

(14) Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.

Q10: Do you agree with the legal opinion prepared for the Aotearoa Circle?

Yes: We agree with the legal opinion prepared for the Aotearoa Circle, however, we consider that having specific requirements for climate-related financial disclosures will ensure that the climate-related risks and opportunities are taken into account.

Chapter 5: Designing a comply-or-explain disclosure system for New Zealand

Q11: Do you favour the status quo or new mandatory disclosures?

We favour new mandatory disclosures.

The status quo is enabling a wide range of ad hoc reporting and assurance practices that are, in our view, confusing the market and as such, resulting in boards and primary users not acting in an informed manner or creating perceptions on comparability between entities and/or between industries (e.g. farmed salmon verses beef, see for example Q2 above). The proposed mandatory regime will help the market get 'transition ready'; focusing on both the risks and the opportunities (such as low-carbon products and

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Section 414CB: Contents of non-financial information statement

(1)The non-financial information statement must contain information, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity, relating to, as a minimum—

(a)environmental matters (including the impact of the company's business on the environment),

(b)the company's employees,

(c)social matters,

(d) respect for human rights, and

(e) anti-corruption and anti-bribery matters.

(2) The information must include—

(a) a brief description of the company's business model,

(b) a description of the policies pursued by the company in relation to the matters mentioned in subsection (1)(a) to (e) and any due diligence processes implemented by the company in pursuance of those policies,

(c) a description of the outcome of those policies,

(d) a description of the principal risks relating to the matters mentioned in subsection (1)(a) to (e) arising in connection with the company's operations and, where relevant and proportionate—

(i) a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and

(ii) a description of how it manages the principal risks, and

(e) a description of the non-financial key performance indicators relevant to the company's business.

(3) In subsection (2)(e), "key performance indicators" means factors by reference to which the development, performance or position of the company's business, or the impact of the company's activity, can be measured effectively.

(4) If the company does not pursue policies in relation to one or more of the matters mentioned in subsection (1)(a) to (e), the statement must provide a clear and reasoned explanation for the company's not doing so.

(5) The statement must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.

(6) If information required by subsections (1) to (5) to be included in the statement is published by the company by means of a national, EU-based or international reporting framework, the statement must specify the framework or frameworks used, instead of including that information.

(7) If a non-financial information statement complies with subsections (1) to (6), the strategic report of which it is part is to be treated as complying with the requirements in—

(a)section 414C(4)(b),

(b)section 414C(7), except as it relates to community issues,

(c)section 414C(8)(b), and

(d)section 414C(12), so far as relating to the provisions mentioned in paragraphs (a) to (c).

(8)In relation to a group non-financial information statement, this section has effect as if the references to the company were references to the undertakings included in the consolidation.

(9)Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the commercial interests of the company, provided that the non-disclosure does not prevent a fair and balanced understanding of the company's development, performance or position or the impact of the company's activity.]

services) and improve comparability between entities and industries. This view is evidenced by the research in Section 2.8 (ii) of this submission.

We believe the *NZX Rules*, the *NZX Corporate Governance Code* (*NZX Code*) and the *ESG Guidance* are currently inadequate for the purposes of ensuring primary users of annual reports obtain the necessary information about material climate-related financial disclosures. We outline the reasons why.

The current *NZX Corporate Governance Code* (*NZX Code*):

- is limited to listed issuers only;
- is not a true 'comply or explain' – it is voluntary;[107] and
- does not require consideration and reporting of ESG matters.[108]

Moreover, the 'comply or explain' concept contained in the *NZX Code* is of a lower threshold than that proposed in the NZ *Government Discussion Document*[109] and as such enables entities to choose not to comply with the *NZX Code* to disclose ESG matters. In our view, ESG is a much wider, broader and less specific set of disclosures than the 11 TCFD recommendations.

It is only the *NZX Rules* that are mandatory.

- We note that under the current legislative and accounting standards, directors and entities may take into account material climate risks as part of their current legal and reporting obligations.
- In addition, continuous disclosure rules would require prompt disclosure of material information. However, the *NZX Code* and continuous disclosure rules are limited to listed issuers only.
- While directors' existing legal requirements may require directors to consider climate-related risks, directors may not necessarily report on or act on any of their considerations. Some material risks that impact on the financial statements for a particular period (particularly short-term risks with a high degree of certainty) may be taken into account by entities in drawing up their financial statements.[110] However, where entities do disclose climate-related matters, they can use any accepted international framework which may result in a variety of information being disclosed that is not comparable or consistent.

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[107] Page 4, *NZX Code, Appendix 1, NZX Listing Rules*: 'Comply or explain: The Listing Rules act to encourage issuers to adopt the NZX Code but do not force them to do so. This allows an issuer flexibility to adopt other corporate governance practices considered by the Board to be more suitable.' See https://www.nzx.com/regulation/nzx-rules-guidance/main-board-debt-market-rules

[108] Page 24, *NZX Code, Appendix 1, NZX Listing Rules*: 'In order for investors and other users of this information to be able to easily compare information, NZX suggests that if an issuer chooses a formal framework to report on ESG factors, it should report against recognised international reporting initiatives such as the Global Reporting Initiative guidelines or Integrated Reporting which can be found here. There should be balanced, transparent, public disclosure which connects financial, social and environmental performance. This should explain how ESG factors affect the financial performance of an issuer, allowing stakeholders to have a better understanding of the issuer's overall performance, risks and opportunities.' See https://www.nzx.com/regulation/nzx-rules-guidance/main-board-debt-market-rules

[109] Page 9, *NZ Government Discussion Document*: 'Not complying with the TCFD in full would be permissible, in year 1 only, subject to explaining why some disclosures have not been made, eg, because targets and metrics are still being developed. Thereafter, non-disclosure would only be allowable on the basis of a preparer's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why.' See https://www.mfe.govt.nz/consultations/climate-related-financial-disclosures

[110] Note: See the IASB's article which explains how existing requirements within IFRS Standards relate to climate change risks and other emerging risks even though such risks are not explicitly referenced in the IFRS Standards. See https://cdn.ifrs.org/-/media/feature/news/2019/november/in-brief-climate-change-nick-anderson.pdf?la=en

As such, we favour new mandatory disclosures as the status quo has not resulted in high incidence of consistent disclosures. Mandatory disclosures will ensure consistent and comparable disclosures, apply to a wider set of entities than just listed entities (or a subset of entities), hasten entities' consideration of climate-related risks and opportunities and ensure the longer-term risks and opportunities of climate change are taken into account. Relying on voluntary disclosures also risks entities that might be most affected by climate change failing to inform investors. Having two directors sign the *Statement of Climate Information* ensures that board members have had that conversation.

It is our view that applying the TCFD framework delivers a range of information that may belong in a range of different locations within the existing reporting system. Some of this information may be repeated or presented in a different way to the wider public while some information may remain internal to the managers and/or board. Examples of where such information will be located will depend on whether the information is material and who the information is relevant to. Examples include:

- Information contained in the financial statements (which is audited);
- Information contained in the annual report (other than the financial statements) prepared by the board (the Chair's report);
- Information contained in the annual report (other than the financial statements and the Chair's report);
- Information contained in a separate report to interested stakeholders;
- Statutory information requirements to government organisations or regulators (e.g. RSNZ, StatisticsNZ or the new Climate Change Commission);
- Board papers (internal); and/or
- Management papers (internal).

Q12: If a mandatory approach is adopted, do you agree with the Productivity Commission that a mandatory (comply-or-explain) principles-based disclosure system should be adopted?

Yes: We agree with the Productivity Commission that a mandatory (comply-or-explain) principles-based disclosure system should be adopted.

Q13: If the status quo is retained, how can government and investors be confident that risks would be routinely considered in business and investment decisions?

We do not support the status quo as we cannot be sure that, in the absence of a mandatory requirement, all material climate-related risks and opportunities would be routinely considered in business and investment decisions by the entities. Additionally, in the absence of relevant disclosures, it would be difficult for government and investors to be confident that those risks have been identified, considered and/or managed.

Q14: Do you consider the TCFD framework to be best practice in relation to climate-related financial disclosures?

Yes: We consider the TCFD framework to be best practice in relation to climate-related financial disclosures. We note its increasing acceptance internationally, both on a voluntary and mandatory basis [Also see our response to Question 1 in this submission].

Q15: What are your views about whether the TCFD's recommended disclosures will provide useful information to institutional investors and other users?

Compared to the status quo, the TCFD's recommended disclosures will provide useful information to institutional investors and other users because it has been designed by a number of institutional investors.

The TCFD framework is useful as its four core elements (governance, strategy, risk management, and metrics and targets) are sequential and are based on how organisations operate. It focuses on the increasing importance of the need for investors and others to understand the context in which financial results are achieved and the increasing demand for transparency from organisations on their governance structures, strategies, and risk management practices. Requiring entities to make the TCFD's recommended disclosures will enable investors and others to know which entities are most at risk from climate change, which are best prepared, and which are taking action. This, in turn, will enable investors and others to have the necessary information to appropriately assess and price climate-related risk and opportunities and allocate capital in the global economy.

Q16: Do you think the proposed disclosure system will encourage disclosing entities to make better business decisions?

Yes: We believe the proposed disclosure system will encourage disclosing entities to make better business decisions as it provides a framework that would require entities to systematically and annually address the four core elements in the context of climate-related matters. The TCFD framework will help ensure that entities, and in particular the board:

- identifies and considers climate-related risks and opportunities. Importantly, the TCFD framework also requires entities to consider not just risks but also opportunities associated with climate change;
- appreciates that climate-related risks are not limited to physical risks (examples of other risks include changes in consumer demand, stranded assets and supply-chain risk); and
- acknowledges that climate-related risks do not only manifest in the long-term (those risks exist and are playing out now).

TCFD disclosures provide a lens to look at the company, its business model and how it operates and fits within the wider ecosystem. It allows entities to be prepared, to think ahead and to adapt to the future.

Q17: Is the definition of materiality in the IASB Conceptual Framework for Financial Reporting appropriate for this purpose?

Yes: The TCFD framework applies to the disclosure of material climate-related financial disclosures.

While the TCFD framework does not provide a determinative definition of materiality, in general it provides for entities to determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings. It also provides for how the information is provided to investors and others (where there is no requirement for public filing, as in the case of some asset owners and asset managers).

Given that the TCFD framework deals with 'financial' disclosures, we support using the definition of materiality in the *IASB Conceptual Framework for Financial Reporting*. The IASB's concept of materiality for financial reporting purposes is generally well understood and applied.

It is desirable to have a consistent concept for determining materiality for all financial disclosures, rather than having another definition of materiality for this purpose. The application of the IASB's concept of materiality is set out in its *IFRS Practice Statement 2 Making Materiality Judgements*.[111]

The Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) has issued non-mandatory guidance *The Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2*, for helping preparers and users make 'materiality' judgements when preparing general purpose financial statements in accordance with Australian Accounting Standards. However, it is important to note that the existing guidance only applies to the financial statements and not to the other information contained in the annual report:

> These recommendations relate to financial statement requirements and do not negate the need to consider reporting obligations in other parts of the annual report such as the operating and financial review/management commentary or the corporate governance statement. Conversely, disclosures made in other documents will not compensate for disclosures that should be in the financial statements, and are therefore subject to audit.[112]

Notwithstanding this, the IASB's concept of materiality could be applied to information included in annual reports. 'Material' is defined in accounting standards, see Table 3.

This concept of materiality would be equally applicable to assessing materiality for information to be included in an annual report. Moreover, as the IASB is reviewing its Practice Statement 1 *Management Commentary*, the concept of materiality is being assessed in the context of the wider information that the IASB envisages will be included as part of *Management Commentary*.

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[111] Page 5, *IFRS Practice Statement 2 Making Materiality Judgements*. See https://www.xrb.govt.nz/dmsdocument/3373

[112] 'Even though APS 2 is not mandatory, it represents the IASB's best practice guidance for making the materiality judgements required by Australian Accounting Standards when preparing general purpose financial statements in accordance with Australian Accounting Standards. However, APS 2 only applies to the financial statements and not to the other information contained in the annual report.' Page 5, *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2 December 2018*. See https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_13122018_final.pdf

Table 3: Different definitions of materiality in legislation and the accounting framework[113]

Standard/legislation	Definition of materiality
Practice Statement 1: Management Commentary (non-mandatory guidance)[114]	'Management should include information that is **material** to the entity in management commentary. Materiality will be different for each entity. **Materiality is an 'entity specific aspect of relevance'; thus information that is relevant for an entity will also be material'**. [Bold added][115]
Practice Statement 2: Making Materiality Judgements (non-mandatory guidance)[116]	Information is **material** if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. [Bold added][117]
NZ IAS 1: Presentation of Financial Statements	Information is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances. [Bold added][118]
Conceptual Framework	Information is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation. [Bold added][119]
Financial Markets Conduct Act 2013	(1) In this Part, **material information**, in relation to a listed issuer, is information that— (a) a reasonable person would expect, if it were generally available to the market, to have a material effect on the price of quoted financial products of the listed issuer; and (b) relates to particular financial products, a particular listed issuer, or particular listed issuers, rather than to financial products generally or listed issuers generally. [Bold added][120]

113 Prepared by the McGuinness Institute (specific sources footnoted).

114 'These publications provide non-mandatory guidance. Entities applying IFRS® Standards, are not required to comply with these publications in order to state compliance with IFRS Standards.' See https://www.xrb.govt.nz/accounting-standards/ifrs-practice-statements-and-guides

115 Page 9, *IFRS Practice Statement 1 Management Commentary: A framework for presentation*. See https://www.xrb.govt.nz/dmsdocument/3372

116 'These publications provide non-mandatory guidance. Entities applying IFRS® Standards, are not required to comply with these publications in order to state compliance with IFRS Standards.' See https://www.xrb.govt.nz/accounting-standards/ifrs-practice-statements-and-guides

117 Page 5, *IFRS Practice Statement 2: Making Materiality Judgements*. See https://www.xrb.govt.nz/dmsdocument/3373

118 Page 7, Paragraph 7, *NZ IAS 1 Presentation of Financial Statements*. See https://www.xrb.govt.nz/dmsdocument/3125

119 Page 13, *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework)*. See https://www.xrb.govt.nz/dmsdocument/3123

120 See s 231 of the Financial Markets Conduct Act 2013.

Q: 18 What comments do you have on our proposal that non-disclosure would only be allowable on the basis of the entity's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why?

The concept of comply-or-explain proposed in the *NZ Government Discussion Document* is that non-disclosure would only be allowable on the basis of the entity's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why.

We agree with the proposal in the *NZ Government Discussion Document* given the urgency for entities to deal with non-diversifiable climate-related risks that will impact most entities. It is accepted that a number of industries will be particularly affected by climate change, while others might not and would be able to explain why they might not be materially impacted. The 'explain' part of this proposal also further upholds integrity by preventing companies from simply 'opting out' of the disclosure requirements. Notwithstanding this, we consider the proposal may be too onerous in relation to giving entities only one year before they must comply fully with the TCFD disclosures. It may be more useful at the initial stages to allow non-compliance for other reasons, for example, the need to change systems or collect the necessary information, in an effort to encourage better reporting and disclosure. While some entities may be able to reach compliance quickly, other entities may need time to comply fully. It would be unfortunate if entities trying to comply are penalized unnecessarily in the initial years.

Q19: What are your views about providing a transition period where incomplete disclosures would be permissible?

Your Para 105: As recommended by the Canadian Expert Panel on Sustainable Finance, non-disclosure would only be allowed if the entity analyses and reports that they see themselves as not being materially affected by climate change, with an explanation as to why.

In year one, it would also be ***permissible to not provide a full set of TCFD disclosures****, subject to explaining why the disclosures are incomplete. We are proposing this because aspects of TCFD are challenging and some entities may not be able to 'gear up' in time to produce a full set of disclosures in the first year.* [Bold added]

There has been some debate at the Institute over what 'incomplete disclosures' mean in practice. Does it mean that the entity does not acknowledge that there are 11 disclosures and they only mention a few of them (or example six) or does it mean they mention 11 disclosures and explain why they cannot complete a certain number (in this case five disclosures). We consider mandatory reporting means that all 11 need to be mentioned and if not fully reported against the reason should be explained (such as not material to the entity). Using the latter explanation, in our view, no transition would be needed but some form of penalty holiday should be implemented.

We consider the penalizing scheme should be implemented in two or three years' time – in other words no transition period for mandatory reporting but a no-penalty period for a few years to give entities time to get their disclosures up to the necessary standard.

The voluntary regime has indicated that some disclosures were easier to report (possibly for a wide range of reasons such as difficulty and reputational issues) as evidenced by the 8 October research results in Carney's speech, shown in Figures 14 and 15 of this submission.

Q20: If there is to be a transition period, what are your views on it being for one financial year?

We do not think it is necessary for a transition period for mandatory reporting but it will be useful to have a transition period before penalties for incomplete disclosures are applied. [See our response to Question 19]

Q21: Should all of the following classes of entity be subject to mandatory (comply or explain) climate-related financial disclosures: listed issuers, registered banks, licensed insurers, asset owners and asset managers?

Yes: The classes of entities set out in the *NZ Government Discussion Document* are all important. Rather than list each entity type we suggest applying groups of entities that already exist in legislation. This helps clarify why certain groups are reporting. The group listed above is best understood in terms of Tier 1 reporters.

Linking reporting requirements to the legislative framework and the XRB's Accounting Standards Framework makes it a simpler, consistent and more cohesive framework for external reporting by entities. This will allow for coverage of all entity types, not just a subset of entities, and will include public sector entities that meet the definition. It will also allow a better integration with reporting by entities in the public benefit entity (PBE) sector.

Using the existing legislative and external reporting frameworks also allows for a staged approach. For example, mandatory requirements could apply initially to all Tier 1 entities and at a later stage to all Tier 2 entities.

Further, as emphasised earlier, we believe a number of Tier 2 entities and SMEs may wish to prepare, publish and possibly file *Statements of Climate Information* immediately, hence it is important that the framework enables all organisations to do so. [Also see our Overall Comments above and our response to Question 8 and Question 35]

Q22: Should any other classes of entity be required to disclose?

Yes: We consider all Tier 2 entities could be subject to mandatory disclosures at a late date.
See Question 21.

Q23: Should there be an exemption for smaller entities?

Using the existing legislative framework for financial reporting we suggest mandatory reporting for all Tier 1 entities and voluntary reporting for Tier 2 entities and SMEs. Note, SME entities currently have no legal obligation to prepare financial reports that comply with XRB's standards (most SMEs are below the size thresholds set out in s 45[121] of the Financial Reporting Act 2013). However, these entities may wish

[121] Financial Reporting Act 2013
Section 45: Meaning of large
(1) For the purposes of an enactment that refers to this section, an entity (other than an overseas company or a subsidiary of an overseas company) is large in respect of an accounting period if at least 1 of the following paragraphs applies:
(a) as at the balance date of each of the 2 preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed $60 million:
(b) in each of the 2 preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds $30 million.
(2) For the purposes of an enactment that refers to this section, an overseas company or a subsidiary of an overseas company is large in respect of an accounting period if at least 1 of the following paragraphs applies:

to prepare, publish and file a 'comprehensive' *Statement of Climate Information* against a NZ TCFD-based standard or a 'partial' *Statement* disclosing, for example, GHG emissions. We consider smaller entities should be able to and where appropriate be encouraged to make voluntary disclosures, particularly if their business model results in GHG emissions (e.g. courier operator). At this stage we do not think smaller entities (i.e. Tier 2 or SMEs) should be required to report. [See our response to Question 21]

Q24: If there were to be an exemption:

(a) What criterion or criteria should be used: annual revenue, total assets, a combination of the two, or some other measure or measures?

If there were to be an exemption, we consider a distinction between large and small is the most logical. 'Small' could be defined in terms of annual revenue (below a certain dollar amount), total assets (below a certain dollar amount) and full-time employees (FTEs) (below a certain figure e.g. 100). An exemption would, for example, require all three criteria to be met in the previous financial year, with the figures contained in their annual report. This question asks the inverse to the *TCFD Survey* results graphed in Figure 4, hence we imagine some type of relationship between the criteria and the exemption.

(b) Which dollar amount or amounts would be appropriate?

We suggest using the same criteria as s 45 of the Financial Reporting Act 2013.[122]

(c) Should there be a requirement to adjust for inflation from time-to-time?

Yes.

Q25: What are your views about our proposal to have a stand-alone climate-related financial disclosure report within the entity's annual report?

Yes: We support having a stand-alone *Statement of Climate Information* within the entity's annual report. We believe the *Statement of Climate Information* and the climate-related disclosures of a financial nature in an entity's financial statements will work together to provide users two types of narratives. All material climate-related financial information needs to also be in the financial statements. We do not consider there will be a great deal of duplication. [See our response to Question 26]

Q26: What are your views about providing for disclosing entities to include cross references or mappings within that report to assist users to find relevant information?

We would support cross referencing as a means to link the *Statement of Climate Information* with the financial information in the financial report and vice versa. Although there may be some duplication of metrics and risk information, we expect that these will be minimal. Together, these two reports have two very different purposes. While the financial statements will contain some information on financial impacts in the short term, the *Statement of Climate Information* will tell a more complete story over climate governance, strategy, risk management and metrics and targets. These are two different but complementary reports. [See our response to Question 25]

(a) as at the balance date of each of the 2 preceding accounting periods, the total assets of the entity and its subsidiaries (if any) exceed $20 million:

(b) in each of the 2 preceding accounting periods, the total revenue of the entity and its subsidiaries (if any) exceeds $10 million.

[122] See footnote above.

Q27: What are your views about requiring explanations for non-compliance to be included in the annual report?

We support requiring non-compliance to be included in the annual report. Explanations for non-compliance that result in financial impacts, however, should also be disclosed in the financial report.

Q28: Should there be mandatory assurance in relation to climate-related financial disclosures?

Assurance increases the credibility and reliability of information disclosed and increases users' confidence in the information. If the climate-related financial disclosures are considered to be important enough to warrant mandatory disclosure, we consider the disclosures should be assured.

Interestingly, nine NZX50 companies received either a CEMARS or CarbonZero certification for reporting emissions, with at least one of these being by one of the big four accounting firms (see Section 3.1 (v) above).

We consider there should be mandatory assurance in relation to climate-related financial disclosures as part of the assurance for financial reports. It should be noted that while there is currently no specific accounting standard for climate-related financial disclosures, there are assurance standards that can be used for assuring climate-related disclosures, as set out in Appendix G of the *NZ Government Discussion Document*. Auditors under current assurance standards are already required to consider information in the annual report to ensure the information is consistent with the information in the financial report. As such, assurance of climate-related financial disclosures is possible under existing assurance standards and should therefore be required.

Q29: Which classes of information should be subject to assurance if it were to be mandatory?

We consider all climate-related financial information disclosed within the financial report should be subject to assurance. Other climate-related information contained in the annual report will be considered by the auditors under current assurance standards when auditing the financial statements. However, we propose a specific requirement for the *Statement of Climate Information* and any related information to be audited.

Q30: Do you consider that assurance should be required in relation to GHG emissions disclosures?

We consider assurance should be required in relation to GHG emissions. We note, as set out in Appendix G of the *NZ Government Discussion Document*, that ISAE (NZ) 3410: *Assurance Engagements on Greenhouse Gas Statements* is part of the XRB's suite of assurance standards.

Q31: Is limited assurance the only practicable approach in relation to TCFD disclosures, or is reasonable assurance also feasible?

Whether the climate-related financial disclosures are subject to limited assurance or reasonable assurance depends on where the information is located. If the climate-related information is financial in nature and is included in the financial report, it is desirable that they be subject to reasonable assurance, similar to other financial information in the financial report. To do otherwise is likely to create confusion over the reliability and credibility of those climate-related financial disclosures when compared to the information in the financial report. We prefer that all climate-related disclosures be audited. However, in our view, requiring limited assurance over any information outside the financial report will be preferable to having

no assurance at all. If only one of the 11 disclosures were to be audited, we request that Scopes 1, 2 and ideally Scope 3 emissions are audited.

Q32: If we do not introduce mandatory assurance when a disclosure system comes into effect, should it be reconsidered in the future?

If no mandatory assurance is introduced when a disclosure system comes into effect, we agree it should be reconsidered in the future.

Q33: What comments do you have on the proposal to bring the disclosure system into force for financial years commencing six months on or after the date that the regulation is introduced?

We agree with the proposal to bring the disclosure system into force for financial years commencing six months on or after the date that the regulation is introduced. We support bringing in the disclosure system early but suggest a strong inspection role (with an annual report on general disclosures by entity types and specific feedback for each entity) with light enforcement in the first couple of years to allow transition and encourage compliance.

Q34: Do you consider that smaller entities should be provided with a longer transition if there were to be no exemption for them? If so, how long should that additional period be?

We consider that small and medium-sized entities should be provided with a longer transition (if they were not given an exemption). Whatever final framework is developed we consider small and medium-sized entities should be able to voluntarily report (if they wish to do so) and file (if they wish to do so). We suggest a staged implementation such that Tier 2 entities and small and medium-sized entities be subject to mandatory compliance at a later stage, such as after 3–5 years.

Q35: Do you have any views about the legislative means for implementing new mandatory (comply-or-explain) disclosure requirements?

See grey boxes 1–3 for our suggested approach.

It is important to acknowledge that New Zealand does not place international protocols in legislation (e.g. we do not refer to the IASB in legislation). Instead we refer to best practice, or more specially in the Financial Reporting Act 2013 – 'generally accepted accounting practice'. We consider this is a good approach as it provides government a degree of certainty as well as flexibility, enabling the XRB to make the final choice based on generally accepted practice.

We suggest that the Climate Change Response Act 2002 includes a new Part on 'External Reporting on Mitigation and Adaptation' defining who is to report (i.e. external climate reporting organisations) and what they report (i.e. a *Statement of Climate Information)* in their annual report. The external climate reporting organisations are:

Group 1: Participants of the New Zealand Emissions Trading scheme (ETS) (under s 54 of the Climate Change Response Act 2002) (Section 2.2.1 of this submission);

Group 2: CCRA reporting organisations (under s 5ZW of the Climate Change Response Act 2002 [CCRA]) (Section 2.2.2 of this submission); and

Group 3: XRB Tier 1 for-profit entities and public benefit entities (Section 2.2.3 of this submission).

The entities would be required to comply with an XRB standard (for example a NZ TCFD-based standard) in drawing up the *Statement of Climate Information*. There would be no provision for an entity to opt out of disclosing the *Statement of Climate Information*. The Climate Change Response Act 2002 would also include the four core elements of the TCFD framework (along the lines of s 5ZW of the Act) for these disclosing entities and provide for the XRB to set a standard to support the legislative requirements.

Specifying the legislative requirement for a *Statement of Climate Information* in the Climate Change Response Act 2002 will also require s 17(2) of the Financial Reporting Act 2013 to be invoked. Section 17(1) could also be made more specific when invoked to allow the XRB to set a non-financial standard. We also propose that the definition of 'financial reporting standard' in s 5 of the Financial Reporting Act 2013 be amended to reinforce the fact that financial reporting standards can include non-financial standards. We also suggest amending ss 8 and 12 of the Financial Reporting Act 2013 to include a *Statement of Climate Information*.

See specific amendments in Box 2 below.

Box 2: Suggested amendments to the Financial Reporting Act 2013 and the XRB A1

A: Financial Reporting Act 2013

5 Interpretation

Financial reporting standard means a financial reporting standard issued by the Board under section 12; and includes a non-financial reporting standard issued for the purpose of section 17; and includes an amendment to a financial reporting standard that is issued by the Board.
[strikethrough deleted, underlined new]

8 Meaning of generally accepted accounting practice

In this Act, financial statements, group financial statements, a report (including a Statement of Climate Information), or other information complies with generally accepted accounting practice only if the report, statements, or information comply with—
(a) applicable financial reporting standards; and
(b) in relation to matters for which no provision is made in applicable financial reporting standards, an authoritative notice.

12 Functions of Board

The Board has the following functions:
(a) to prepare and, if it thinks fit, issue **financial reporting standards** for the purposes of any enactment that requires—
(i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or
(ii) a statement, report (including a Statement of Climate Information), or other information to comply, or be prepared in accordance, with financial reporting standards:
(b) to prepare and, if it thinks fit, issue auditing and assurance standards for—
(i) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or

(ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or
(iii) any other purpose approved by the Minister by notice in writing to the Board:
(c) to prepare and, if it thinks fit, issue authoritative notices for the purposes of the definition of generally accepted accounting practice:
(d) to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):
(e) to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:
(f) to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments.

17 Financial reporting standards may cover non-financial reporting
(1) A financial reporting standard may relate to reporting on—
(a) an entity's performance; or
(b) an entity's related party transactions; or
(c) any other non-financial matter that directly relates, or is incidental or ancillary, to an entity's financial reporting; or
(ca) an entity's Statement of Climate Information including**;
(i) a description of the organisation's governance in relation to the risks of, and opportunities; or
(ii) a description of the actual and potential effects of the risks and opportunities on the organization's business, strategy, and financial planning; or
(iii) a description of the processes that the organisation uses to identify, assess, and manage the risks; or
(iv) a description of the metrics and targets used to assess and manage the risks and opportunities, including, if relevant, time frames and progress
(cb) the social, environmental, and economic context in which an entity operates; or
(d) other non-financial matters authorised by an Order in Council made under subsection (2).
(2) The Governor-General may, on the recommendation of the Minister, by Order in Council,—
(a) authorise the Board to issue financial reporting standards that relate to ~~reporting on 1 or more of the following matters~~
~~(i) an entity's governance:~~
~~(ii) an entity's strategic direction and targets:~~
~~(iii) the social, environmental, and economic context in which an entity operates:~~
(iv) any other matter relating to an entity's performance or position; and
(b) specify conditions to which the authorisation is subject.
(3) The Minister may make a recommendation only if he or she is satisfied that it is desirable for standards referred to in subsection (2)(a) to be issued in order to provide for the integrated reporting of an entity's performance or position in terms of both financial and non-financial information.
(4) This section does not limit section 15.

B: XRB's Accounting Standards Framework: Tier 1 Strategy[123]

Note: In our view 'financial reporting' must include climate-related 'financial disclosures'. Under option A discussed in Section 2.7, no changes would need to be made to the Accounting Standards Framework Tier strategy. Under option B, the Tier strategy may need to be changed and therefore approved by the Minister in accordance with s 31 of the Financial Reporting Act 2013 – see also Table 1 in this submission.[124]

[bold added, underlined new, strikethrough recommended to be deleted]

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[123] See the existing framework: https://www.xrb.govt.nz/reporting-requirements/accounting-standards-framework

[124] Financial Reporting Act 2013

Section 29: Tiers of financial reporting for different classes of reporting entities

(1) The purpose of sections 30 to 33 is to provide for a system of tiers of financial reporting that impose different financial reporting requirements in respect of different classes of reporting entities in order to ensure that the requirements that apply in respect of those entities are appropriate.

(2) In sections 30 to 33, strategy means—

(a) the strategy for establishing different tiers of financial reporting approved under section 34C of the Financial Reporting Act 1993 as in force immediately before the commencement of this section (with any variations approved under section 31); or

(b) a replacement of that strategy as approved under section 31.

Section 30: Board must implement strategy for tiers of financial reporting

The Board must take reasonable steps to implement the strategy.

Section 31: Minister may approve variation or replacement of strategy

(1) The Minister may, after receiving a proposal for the variation or replacement of the strategy prepared by the Board under section 32, either approve or decline to approve the variation or replacement.

(2) The Minister may decline to approve the variation or replacement only if, in his or her opinion,—

(a) the Board has not had sufficient regard to the matters specified in section 32(1)(a); or

(b) the Board has not adequately consulted on the proposal under section 33.

Section 32: Process for preparing proposals to vary or replace strategy

(1) In preparing a proposal for the variation or replacement of the strategy, the Board must—

(a) have regard to—

(i) the purpose referred to in section 29; and

(ii) the advantages and disadvantages of placing different classes of reporting entities within different tiers of financial reporting; and

(iii) which FMC reporting entities are considered to have a higher level of public accountability under section 461K of the Financial Markets Conduct Act 2013; and

(b) ensure that the strategy, after the variation or replacement takes effect,—

(i) specifies the qualifying criteria for each tier of financial reporting; and

(ii) describes the financial reporting requirements that will apply for each tier of financial reporting; and

(iii) includes any other prescribed matters.

(2) The description under subsection (1)(b)(ii) may refer to—

(a) a set of standards (for example, International Financial Reporting Standards and International Public Sector Accounting Standards):

(b) specific standards:

(c) accounting policies, principles, concepts, or methods (for example, the principles of accrual accounting):

(d) any combination of the matters in paragraphs (a) to (c).

(3) A proposal for the variation or replacement of the strategy must specify the Board's reasons (including why the variation or replacement is considered to be appropriate).

Section 33: Consultation on proposals

(1) The Board must, in preparing a proposal for the variation or replacement of the strategy, take reasonable steps to consult the persons or representatives of persons who, in the opinion of the Board, would be substantially affected by the variation or replacement.

(2) However, the Board is not required to comply with subsection (1) in respect of a variation to the strategy if, in its opinion, the variation corrects a minor error or is otherwise of a minor nature.

(3) Any failure to comply with subsection (1) does not affect the validity of the variation or replacement.

It is important for the *Statement of Climate Information* to be publicly accessible. In addition to potential investors and other primary users, the Minister and the Climate Change Commission will be extremely interested in the risks (for their risk assessment) as will bankers, unions, suppliers and retailers.

For this reason, we recommended the Companies Act 1993 be amended to require a *Statement of Climate Information* to be filed on the Companies Register. This will need to be done for other legislation where the *Statement of Climate Information* needs to be required and placed on a register.

Box 3: Suggested amendments to the Companies Act 1993

Registration of Statement of Climate Information by selected companies

Application of registration provisions

(1) This section applies to each of the following:

(a) External Climate Reporting Organisations listed in [a new Part 6, being Box 1 of this submission] of the Climate Change Response Act 2002.

Statements of Climate Information must be registered

(1) A reporting organisation to which this section applies must ensure that, within 5 months after the balance date of the company or overseas company, copies of its audited Statement of Climate Information is delivered to the Registrar for registration.
[underline new]

Q36: Do you consider that there is a role for government in relation to guidance, education, monitoring and reporting?

We discuss each of these in turn, but have also added 'assurance' to the list as we consider it to be such an important area in terms of building trust:

Standard/Guidance:
No: Under our approach the XRB should be the standard setter and guidance provider. In addition to the standards and guidance the XRB provide, it is also important to note that the TCFD is producing very good guidance though the release of handbooks and other guidance and is planning to produce guidance on developing scenarios. This work will help guide the XRB in much the same way the IASB currently supports the XRB. Lastly, it is important to acknowledge that the XRB does not only adopt international standards; it has the power to issue its own domestic standards, for example, the XRB has issued domestic accounting standards FRS 42 *Prospective Financial Statements* and FRS 48 *Service Performance Reporting*. The XRB has also issued domestic standard NZ AS 1 *Audit of Service Performance Information* for the assurance of the statement of performance.

Education:
No: Our view is that neither MfE nor MBIE need to enter this space as the market will meet this demand.

Under our approach, education would be undertaken by the wide range of learning opportunities that currently exist (e.g. of industry groups, professional organisations and consultants). For accountants, we

need to meet our Continuing Professional Development (CPD) requirements every year (e.g. CA ANZ[125] and CPA[126]). Other professionals have similar obligations. In this way, knowledge about TCFD is no different.

In terms of demand, both the McGuinness/Simpson Grierson October workshops and the MBIE/MfE November workshops were well subscribed. Hence there is evidence of strong interest to learn more about TCFD. This is further evidence by the *TCFD Survey* results (see pages 5–7)[127], which show respondents views on the type of workshops and the type of content they would like in 2020 TCFD workshops.

Our view is that commercial interests will enter this space. The only reason the Institute would enter this space in 2020 is if there was an area/topic that we thought would not be provided by the market and/or not provided in such a way that would meet our understanding of what was needed. At this stage we expect the market will fill this gap. Demand will increase in 2020 and we are already seeing key players moving into this space (e.g. providing consultancy services to clients and courses/workshops to interested parties).

The only area that we are watching intently is education in 'climate scenario development'. However, we are seeing evidence of TCFD providing guidance in this space (see Part 3, 14 November 2019).

The key to education is a very clear reporting standard and/or explanatory guidance to ensure preparers and users have a concise understanding of what is needed and what is not (hence the role of XRB noted above).

Monitoring:
No, other than through the usual regulators. The FMA is the prime oversight body for FMC entities but other regulators could be involved. See Table 4 below.

This is likely to be different depending on the type of entity and the type of disclosure. Below is an overview of our understanding of who in the current system undertakes monitoring of reporting by entities. It is important to note that in terms of checks and balances in complex systems, the separation of oversight duties from those that prepare and create standards and guidance is an important aspect to the existing design.

Table 4: Existing Monitoring and Oversight Roles[128]

Type of entity	FMC reporting entities	Local Government	Central Government/ Departments/Public entities	Licensed Insurers/Registered banks/NBDTs
Regulator	FMA/NZX	OAG/DIA	Treasury/OAG	RBNZ/FMA

125 See https://www.charteredaccountantsanz.com
126 See https://www.cpaaustralia.com.au/member-services/continuing-professional-development/ways-to-complete-cpd
127 See http://www.mcguinnessinstitute.org/surveys
128 Prepared by the McGuinness Institute (based on our understanding of the existing framework).

Report on progress:

We suggest regulators be required to provide regular reports on the quality of reporting, outlining where preparers have reported that they do not have the necessary information to complete a disclosure. This could be presented along the lines of the 8 October research results in Mark Carney's speech, shown in Figures 14 and 15 of this submission (see Section 4.1), for each of the three groups of 'external climate reporting organisations'. We envisage one standard setter for all groups (i.e. XRB) and one regulator designated for each of the three groups.

Report on key risks:

We consider a report should be prepared by MfE for the Climate Change Commission (and other interested parties) that brings together a summary of key risks outlined in the 'filed' *Statements of Climate Information*. A report on risks from *Statements of Climate Information* (i) by geographical area and (ii) by industry could then feed into the risk assessments for local councils and for the country as a whole. This would form part of the climate information ecosystem.

Assurance:

Besides the assurance standards that already exist that are issued by the XRB, the Auditor-general also has the power to set auditing standards for public entities through the requirement under s 23 of the Public Audit Act 2001 to publish auditing standards that it applies, or intends to apply, in carrying out its work. This option could be progressed with or without the XRB.

Q37: Are there other activities that a government agency could usefully carry out?

No, other than supporting and engaging with the XRB to build a robust consultation process and standard setting/guidance process.

Q38: Which government agency or agencies will be best able to carry out these functions?

See the answer to question 36, in particular Table 4. If climate-related financial disclosures are to be specified in legislation, the following government agencies would need to be involved: the XRB for setting standards, guidance and/or other pronouncement and the regulatory agencies (for example, FMA, RBNZ, NZX) for enforcement and compliance.

Q39: What would you need to assist you with a full set of TCFD disclosures?

Given the Institute is small, this question is not relevant. However, you may be interested in the responses from the *TCFD Survey*, in particular pages 6-8.[129]

Q40: What information do you have about the cost implications relating to these proposals?

See answer to Question 41 below.

Q41: What information do you have about costs for specific types of reporting entities?

The McGuinness Institute is aware of eight entities who adopted the recommendations of the TCFD in their 2018 annual reports. These were Air New Zealand, AMP Limited, Contact Energy, Downer EDI, Guardians of New Zealand Superannuation, Meridian Energy, Vector Limited and Westpac. These results are published in McGuinness Institute's *Working Paper 2019/05 – Reviewing Voluntary Reporting Frameworks*

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[129] See http://www.mcguinnessinstitute.org/surveys

Mentioned in 2017 and 2018 Annual Reports.[130] The research looked at the annual reports of NZX-listed companies, Deloitte Top 200 companies, State-owned enterprises, Crown agents and Crown entities, district health boards (DHB), Crown research institutes, government departments and local authorities. If the Institute had additional time we would have undertaken in-depth interviews to understand the issues that these entities found when making their TCFD disclosures. This may be something MBIE or MfE could undertake in early 2020.

Based on the *TCFD Survey* results, the more experienced a preparer the more likely their response will change to this question. We suggest when reviewing the submitters response to the *NZ Government Discussion Document* you give more weight to answers from those preparers that have experience with TCFD than those that do not. Reasons for this are perhaps best demonstrated with the TCFD results shown in page 5. It shows those that attended the October 2019 workshops rating the hardest to disclose quite differently from those that did not attend the workshop.

During the consultation meeting on 27 November 2019 in Wellington Alison Howard, Head of Sustainability at Meridian Energy, stated in response to a question from Wendy McGuinness that the actual cost of preparing Meridian's TCFD statement was in the vicinity of $20,000 p.a. This was because the scenario analysis had already been undertaken over the last several years, as part of its normal course of business to manage and shape its business strategy.

Meridian Energy had put in place a small team to undertake climate change modelling (this included employing a full-time climate scientist) and their risk manager incorporates climate change in risk matrices prepared for management. The management and Board required information from climate change modelling and risk management to meet the information needs of investors – 'investors' want this information 'today' and 'now'. The matrix was very useful in that risks could be easily identified and pulled from the matrix into the separate TCFD report – although as Meridian pointed out to the Institute, 'the hardest part was working out the likely financial impact'.

In this context, Meridian's TCFD report required the TCFD reporting team to identify some of the data already collected and then publishing the material information in an external report.[131] When preparing their TCFD report it was more a matter of aligning existing information against the 11 disclosures, hence the compliance cost for their 11-page report was in the vicinity of $20,000.

Q42: Do you have any other comments?

Our key concern is whether the key organisations (see Table 4 above) are sufficiently resourced to undertake the necessary general reporting and individual feedback that will be necessary to drive quality disclosures. We suggest that a general report that replicates Figures 14 (over time) and 15 (by group type) would be ideal. We would be happy to discuss this further, as with any other points raised in this submission.

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130 Page 20, *Working Paper 2019/05: Reviewing Voluntary Reporting Frameworks Mentioned in 2017and 2018 Reports.* See http://www.mcguinnessinstitute.org/working-papers

131 *Climate Risk Disclosures Meridian Energy Limited FY19.* See https://www.meridianenergy.co.nz/assets/Sustainability/e93f942ead/Meridian-Climate-Disclosures-TCFD-Report-FY19.pdf

(i) Further consultation

Given how quickly change climate-related reporting is evolving and the urgent need for comprehensive and reliable information, we propose the Minister for Climate Change and the Minister of Commerce and Consumer Affairs consult with key organisations in early 2020 to discuss the following:

- The Chair and Chief Executive Officer of the XRB to explore and understand their views, with particular regard to Option A and B, discussed in Section 2.7.
- The Chair and the Chief Executive Officer of the Reserve Bank (RBNZ) to explore and understand their views on how and whether information in a *Statement of Climate Information* can assist them in ensuring financial stability.
- The Chair and the Chief Executive Officer of the Financial Markets Authority (FMA) to explore and understand their views on how and whether information in a *Statement of Climate Information* can assist them carrying out their regulatory work.
- Other key parties could include the OAG, NZX, Local Government, BusinessNZ, the Insurance Council, the Infrastructure Commission, the Climate Change Commission and the Commerce Commission.

(ii) Extra funding

If our proposal is progressed, additional funding will be required by the XRB and other regulatory bodies to carry out the extra work relating to setting a standard/guidance on a *Statement of Climate Information* and a regulatory regime on the accuracy and completeness of climate-related disclosure.

(iv) Voluntary reporting should be made available to all other entities

Voluntary reporting (other than mandatory reporting for external climate reporting organisations) should be offered to those that are not 'required' to report. Entities (that are not required to report) but wish to report, should be allowed to do so in the same way (e.g. as per a standard/guidance) and in the same location (i.e. on the Companies Register) as those required to report. We believe that there will be many benefits to entities to report and the New Zealand government needs to make this a level playing field.

(v) Building a climate information ecosystem

Although the 'filing' of *Statements of Climate Information* will in themselves be extremely useful for primary users and other stakeholders, we believe there is real benefit in reviewing and collating information from the *Statements* to inform Ministers, investors, industry leaders, policy makers, standard setters and regulators. See, for example, the research results in Mark Carney's 8 October 2019 speech, shown in Figures 14 and 15 of this submission. We close this submission by suggesting policy makers consider how this information might best be used to create a climate information ecosystem that is designed to inform better and more certain and durable public policy, which is in all our interests.

Lastly, we want to emphasis the importance of putting in place one climate-related reporting regime that works for both the public and private sector. For this reason we have gone beyond the focus of the *NZ Government Discussion Document* and to propose a regime that would work for both the public and private sector.

Thank you

Thank you again for the opportunity to comment on this important area of public policy. We consider New Zealand will be challenged by the tyranny of distance and the sooner we get our businesses 'transition ready', the sooner we will, as a country, be better positioned to deliver and export low-carbon products and services, build robust infrastructure and secure for current and future generations a more stable and durable economy.

Appendix 1: Authors

Wendy McGuinness (McGuinness Institute CEO)

Wendy McGuinness founded the McGuinness Institute in 2004, leading research into New Zealand's long-term future and public policy. She holds a BCom, is a Fellow Chartered Accountant (FCA), and has completed short executive courses at Harvard (in driving corporate performance) and at the London School of Economics (in behavioural economics and macroeconomics).

In 1988 she wrote the report on the implementation of accrual accounting in government departments for the New Zealand Treasury. Since 2016 the Institute has been particularly focused on *Project ReportingNZ*, which focuses on how to build an informed New Zealand. In 2017 Wendy led a collaboration with the XRB to conduct surveys into user and preparer views on extended external reporting. In 2019 the Institute published *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*, a major piece of research which explored how the existing complex reporting system might support new climate-related disclosures, and found that the existing system and traditional institutions are not well-positioned to produce a climate reporting standard. Later in the year, in conjunction with Simpson Grierson and the Climate Disclosure Standards Board, the Institute ran workshops on implementing the 2017 G20 Financial Stability Board's *Recommendations of the Task Force on Climate-related Financial Disclosures*. The Institute is currently preparing a comprehensive research report into Aotearoa New Zealand's reporting framework, to be published early 2020.

Lay Wee Ng (Consultant)

Lay Wee is a CA and has an extensive background in regulation and standard setting, with many years working with the Securities Commission (now the FMA). She was a standard setter with the Institute of Chartered Accountants (now CA ANZ), Chief Advisor – Reporting Strategy at the XRB, and is currently a casual technical specialist at the Office of the Auditor General (OAG). She also has particular interests in research, strategy and public policy, especially in the areas of financial and reporting policies and frameworks. She holds a MBS(Hons) from Massey University.

Isabella Smith (Policy analyst)

Isabella has been a part of *Project ReportingNZ* since 2017. She was part of the team which managed the Institute's 2017 extended external reporting surveys and was a co-author of *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*. She holds a BA in politics and communications, with a particular focus on international relations.

Reuben Brady (Policy analyst)

Reuben began working full time at the Institute at the beginning of 2019, with his work being focused on *Project ReportingNZ*. Climate reporting and strategy have been particular focuses this year, and he produced two working papers on and coordinated the TCFD Workshop surveys. He holds a BCom in economics and finance, with an interest in environmental economics.

Appendix 2: Review of the possible location of TCFD disclosures within the current reporting system

Table 5 below explores where each disclosure type might fit within existing reporting practices of for-profit entities. Each disclosure has been examined to see whether it might fit within the financial statements, corporate governance statement, or elsewhere in the annual report (potentially in a director's report).

Table 5: Illustrates how each of the 11 TCFD disclosures may be located within existing reports[132]

Governance	Strategy	Risk Management	Metrics & Targets
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	b) Describe the organisation's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Key is for where this information is likely to be reported using the existing system:

Corporate Governance Statement

Directors'/Chair's report (although not described in NZ law it is described in the UK).

Information that could be argued to be included in the notes to the financial statements

[132] Prepared by McGuinness Institute (based on our understanding the 11 TCFD disclosures and New Zealand's existing reporting framework).

Appendix 3: An overview of legislative options

The Institute has responded to the submission based on the preferred legislative option of extending the XRBs remit to include climate-related financial disclosures through adding a new part to the Climate Change Response Act 2002 and amending s 17 of the Financial Reporting Act 2013. This was also supported by the Productivity Commission in their 2018 report *Low-emissions Economy*.

However, we also explored a range of alternative options. Table 6 below illustrates a range of different legislative options that were explored with tentative notes.

Table 6: Options for incorporating TCFD disclosures into existing legislation[133]

	What	Who	Where	How
Climate Change Response Act 2002	Include further entities within the Climate Change Response Act s 5ZW* or create a new Part to the Act (our preferred option).	This could be the inclusion of Tier 1 for-profit entities and public benefit entities Or a new type could be created – a for-profit climate reporting entity which could be captured based on levels of emissions.	This could be a separate document that would be provided to the Climate Change Commission. Additional legislation within the Financial Reporting Act, Companies Act or Financial Markets Conduct Act could ensure that this information is also published in the annual report/financial statements.	This would ensure that public and private sector reporting is directly comparable as well as available from a single source (a database controlled by the Climate Change Commission). Further guidance could be developed by a government organisation.
Financial Reporting Act 2013	Rewrite to create an External Reporting Act that broadens the role of the XRB and brings all regular external reporting frameworks together under one act	This could include the design of a new tier reporting strategy.	This could include a new Entity Register – a publicly accessible register for all types of entities (for both the public and private sector). Currently companies are not required to file annual reports on the Companies Register.	XRB/FMA
Companies Act 1993	Incorporate a new section into the Companies Act which would require directors to prepare a directors' report (following the UK model for reporting emissions) New section requiring a directors' report and amending ss 131 and 137**	This could require Tier 1 for-profit entities. Given the flexibility of a new section, entities that fall under this could be captured under the definition of 'large' or other variables such as amount of emissions.	The directors' report would form part of the annual report. Currently only NZX-listed entities are required to make their annual report public under the *NZX Listing Rules*.	Developing this section would be relatively easy if the Companies Act 2006 (UK) was used a template. The Institute of Directors could prepare guidance on the directors' report.
Financial Markets Conduct Act 2013	Incorporate the TCFD disclosures into the Financial Markets Conduct Act.	This would cover the majority of entities that have been proposed within the *NZ Government Discussion Document* (excluding	This could be a separate report within the annual report, or a separate external report.	

133 Prepared by McGuinness Institute (based on our understanding of the existing framework).

	What	Who	Where	How
		asset managers and asset owners).		
Reserve Bank of New Zealand Act 1989	Reserve Bank Act could be amended to ensure that entities under its remit incorporate these disclosures in order for all the entities considered in the *NZ Government Discussion Document* to be met.			
New Act	Develop an entirely new act which would incorporate the disclosures of the TCFD.	Although creating a new Act would enable complete flexibility in terms of content, remit, audience etc., this is likely the most time-consuming option.		Flexible, free to scope the entities across all entity types. No need to amend other legislation.

Accompanying notes

***Climate Change Response Act 2002**

Section 5ZW outlines the entities which are included within the new section enabling the Minister to request information. These currently include public sector entities and a very small number of private sector entities (utility companies and state-owned enterprises). This could be extended to include any of the following:

- Listed issuers;
- Tier 1 for-profit entities and public benefit entities;
- Companies required to report to the EPA (part of the NZ ETS); and
- Industry specific entities.

This would ensure that both the public sector and the private sector are preparing comparable information that is being posited with the Climate Change Commission.

What this option does not enable is for the disclosure requirements to be aligned with the Financial Reporting Act or the Companies Act and therefore the existing financial reporting structure. Given the nature of the provision to request information, this option does not necessarily require regular reporting, nor does it suggest that climate-related information forms part of the narrative/context that concludes the position of an entity within their financial statements and annual report.

This option could be strengthened through cross-legislating the disclosures in both the Climate Change Response Act as well as the Financial Reporting Act.

****New section requiring a directors' report and amending ss 131 and 137**

Currently, there is no requirement for a company to prepare a strategic report or directors' report (like UK companies are required to do so under s 414C in the Companies Act 2006 (UK)). A new requirement could be incorporated that would require directors to prepare a 'directors' report', which would include a

Statement of Climate Information based on the TCFD recommendations, particularly the disclosures relating to governance/strategy/risk management. Further quantitative information such as metrics/targets/GHG emissions could be incorporated into the existing s 211. Given that the recommendations will be placed directly into legislation, and developments in this area move much faster than public policy, it is important that they remain broad and flexible, i.e. they only include the high-level disclosures laid out under the four TCFD core elements. The Institute of Directors could then provide guidance on how to prepare these reports.

It should also be considered that to ensure that climate change is at the forefront of all processes and decisions, s 131 of the Companies Act 1993, which concerns the directors' duty of care, should be adjusted to included environmental considerations. See, for example, the Companies Act 2006 (UK) which outlines the duties of directors.

Companies Act 2006 (UK)
Section 172: Duty to promote the success of the company
(1)A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to—
(a)the likely consequences of any decision in the long term,
(b)the interests of the company's employees,
(c)the need to foster the company's business relationships with suppliers, customers and others,
(d)**the impact of the company's operations on the community and the environment**,
(e)the desirability of the company maintaining a reputation for high standards of business conduct, and
(f)the need to act fairly as between members of the company.
(2)Where or to the extent that the purposes of the company consist of or include purposes other than the benefit of its members, subsection (1) has effect as if the reference to promoting the success of the company for the benefit of its members were to achieving those purposes. [Bold added]

Section 131 of the Companies Act 1993 – 'Duty of directors to act in good faith and in best interests of company' could be amended in a similar manner to the way in which the Business Round Table in the USA announced in August 2019 that they have redefined the purpose of the corporation in order to promote 'an economy that serves all Americans'. In similar fashion the 'best interests of the company' could extend to incorporate considerations of the environment and how the impacts of climate change might affect the company. While incremental changes like this may appear fruitless at first, overtime shifting the purpose might influence the actions of an entity.[134]

Given that *Corporate Governance Statements* are only required to be prepared by NZX-listed issuers under the *NZX Listing Rules*, this idea would need to be further strengthened through a number of legislative pathways. These include the potential of amending s 211(1) of the Companies Act 1993 to include disclosing a corporate governance statement or looking at developing a section of the Companies Act

[134] See https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

1993 that would require entities to prepare a directors' report. This could be based on existing UK legislation, such as s 414C of the Companies Act 2006.[135]

[135] See http://www.legislation.gov.uk/ukpga/2006/46/section/414C

Abbreviations

AASB	Australian Accounting Standards Board
ASX	Australian Stock Exchange
AUASB	Auditing and Assurance Standards Board
BA	Bachelor of Arts
BCom	Bachelor of Commerce
BEIS	Department for Business, Energy and Industrial Strategy
CA	Chartered Accountant
CCRA	Climate Change Response Act
CDP	Carbon Disclosure Project
CDR	Carbon Dioxide Removal
CEMARs	Certified Emissions Management and Reduction Scheme
CPD	Continuing Professional Development
CRD	Corporate Reporting Dialogue
DEFRA	Department for Environment, Food & Rural Affairs
DHBs	District Health Boards
EER	Extended External Reporting
EPA	Environmental Protection Agency
ESG	Environmental, Social and Governance
ETS	Emissions Trading Scheme
EU	European Union
FCA	Fellow Chartered Accountant
FMA	Financial Markets Authority
FMC	Financial Marketing Conduct
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FSB	Financial Stability Board
FTE	Full time employees
GAAP	Generally accepted accounting practice
GDS	Government Departmental Strategies
GHG	Greenhouse Gas
GPFR	General purpose financial reports
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICP	Internal carbon price
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISAE	International Standard for Assurance Engagements
LLP	Limited Liability Partnerships
MBIE	Ministry of Business, Innovation and Employment
MfE	Ministry for the Environment
NBDT	Non-Bank Deposit Takers
NZKS	New Zealand King Salmon
OAG	Office of the Auditor-General

PBEs	**Public benefit entity**
R&D	**Research and development**
RBNZ	**Reserve Bank of New Zealand**
RSNZ	**Royal Society of New Zealand**
SECR	**Streamlined Energy and Carbon Reporting**
SFF	**Sustainable Finance Forum**
SMEs	**Small and medium-sized entities**
SOE	**State-owned enterprises**
TCFD	**Taskforce on Climate-related Financial Disclosures**
XRB	**External Reporting Board**