

Submission

Oral Submission to Select Committee on Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill

24 June 2021

A: Purpose

Support the intent of the Bill (*See MI submission: Table, pp.7–12, at beginning of our submission*).

B: Lens

Accessible, concise, accurate, transparent, durable and useful.

C: Recent Research

Working Paper 2021/06: Reviewing TCFD information in 2017–2020 Annual Reports of NZSX-listed companies

Note: Difference between branding/reputational benefits versus compliance costs.

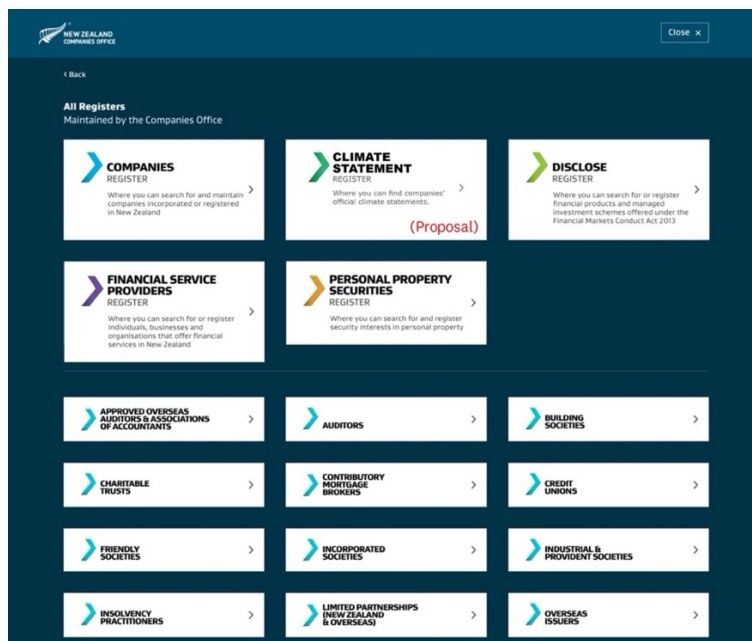
D: Suggested improvements

1. A Climate Statement Register (CSR)

(*See MI submission: p.31–33, 5: Where – create a central register of climate statements*)

- (a) Enables easy access to all users of climate statements (see Figure 1).
- (b) Enables voluntary (assured) climate statements to be uploaded alongside mandatory climate statements.
- (c) Enables non-companies to lodge TCFD reports (if they do not fit into existing categories).
- (d) Enables any type of report to be lodged (e.g. An annual report or a standalone climate statement).

Figure 1: Adapted image of proposed new Register added to MBIE website



2. Exemptions should be removed from the Bill

(See MI submission: pp.18–22, 2: Who – remove exemptions)

- (a) Unnecessarily complex and include significant administration and compliance costs.
- (b) In reality the Bill is asking an organisation to apply for an exemption after it has applied a TCFD-based standard (circular logic). If they are required to apply the standard and they find their impacts are low, reporting that is the case will not be a problem. Including exemptions seems wasteful, expensive and unnecessary.

3. Extend range and number of preparers

(See MI submission: p.23–30, 3: Who – extend type of preparer and 4 Who – extend definition of large)

- (a) Require private non-listed companies to prepare climate statements for shareholders.
Note: Only 48 companies on Deloitte Top 200 are covered under the proposed Bill, meaning 152 are not a climate reporting entity.
- (b) Lower threshold and standardise. Note: Assets are too high (17 times s 45, FRA meaning of large), see Tables 1 and 2. As shown in Table 2, lowering the total assets threshold for all 200 companies would deliver a similar number of entities (a difference of 15 entities, 164-149), which provides a fairer and more consistent public policy response for both preparers and users.

Table 1: Exploring the proposed thresholds (actual)

	Financial Reporting Act 2013 (meaning of large)	Proposed Bill (meaning of large)	Difference between the thresholds in the proposed Bill and FR Act	Using Deloitte Top 200 as a Petri dish, the number of entities under the proposed Bill would be:
Assets	Exceed \$60 million	Exceed \$1000 million	17 times	57 entities
Revenue	Exceed \$30 million	Exceed \$250 million	8 times	164 entities

Table 2: Exploring a reduced asset threshold (proposed)

	Financial Reporting Act 2013 (meaning of large)	Proposed Bill (meaning of large)	Difference between the thresholds in the proposed Bill and FR Act	Using Deloitte Top 200 as a Petri dish, the number of entities under the proposed Bill would be:
Assets	Exceed \$60 million	Exceed \$250 million	4 times	149 entities
Revenue	Exceed \$30 million	Exceed \$250 million	8 times	164 entities

4. Penalties should be required to be published in the climate statement and annual report

(See MI submission: p.34–35, 6: What – increase size and nature of penalties for offences)

- (a) Financial penalties alone may not deter poor behaviour.
- (b) Requiring any penalties to be made public in both a climate statement and the annual report may help ensure reporting is of a high standard (on time, accurate, complete, etc.). For example, see *Nuplex v ARC 2013*.

5. Regular reviews of Climate Statements should be embedded into legislation (FMA?)

(See MI submission: p.36–38, 7: What – add feedback loops to improve the system)

- (a) Enables issues to be identified and lessons learned.
- (b) Enables penalties to be identified.

Other Points

6. Companies Act should be reviewed, in particular s 211 could be strengthened to include risks

See ‘Gerald Fitzgerald Legal Opinion’ in the McGuinness written submission and Figure 2 overleaf.

7. Government should be required to produce a Climate Statement (Treasury?)

- (a) Enables users to understand risks (see current level of climate reporting by departments in Table 3). Each of the six risks are described in detail in *Working Paper 2021/06: Reviewing TCFD information in 2017–2020 Annual Reports of NZSX-listed companies*, p. 9.

Table 3: Number of Departments who disclose climate-related information [out of 32] (final draft)

Six types of climate-related information	2019	2020
Climate-related risks	13	15
Emission metrics	6	4
Emission costs	2	2
Emission controls	9	8
Emissions targets	1	4
Climate change initiatives	18	17

8. New Zealand Climate Reference Scenarios will be required (CCC?)

- (a) New Zealand is unique, therefore we cannot apply overseas scenarios as they will not take into account New Zealand’s unique geography, economy, environment or values.
- (b) Enables organisations to save money by not having to develop detailed scenarios.
- (c) Enables standardisation of knowledge by the same organisation developing scenarios over time. The climate statements (ideally collated in the Climate Statement Register (CSR) discussed in 1. Above, will provide useful information for developing relevant, useful and timely scenarios.

9. Information under s 5ZW of the Climate Change Response Act should be accessible to the public.

10. Reporting will evolve

(See MI submission: pp.14–17, 1: Why – expand purpose of legislation)

- (a) Degrees of warming; Pathways to Paris; Taskforce on Nature-related Financial Disclosures (TNFD).¹
- (b) Legislations needs to be strategic and built to last – not operational and fixed.

¹ See <https://tnfd.info/news/g7-backs-new-taskforce-on-nature-related-financial-disclosures>

Figure 2: Screenshot of s 211 of the Companies Act 1993

The screenshot shows the Companies Act 1993 website. At the top, there is a warning: "Warning: Some amendments have not yet been incorporated". Below this is a search bar with the text "Search within this Act" and a "SEARCH" button. The main navigation area includes "By sections", "View whole (3.0MB)", "Versions and amendments", and "Print/Download PDF [2.5MB]". The content area displays section 211, titled "211 Contents of annual report".

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

Table 4: 2020 Annual Reports found on the Companies Register of NZSX-listed companies

Source: Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose, Table 6, p. 57.

NZSX-listed companies				
Year (as at 31 December)	Company found on the Companies Register			
	(i) Annual report filed (including financial statements)	(ii) Financial statements only filed (no annual report)	(iii) No report or financial statements filed (e.g. in receivership or liquidation)	
2019 [132]	96 [73%]	30 [23%]	6 [5%]	
2020 [132]	87 [66%]	36 [27%]	9 [7%]	

Table 5: TCFD mentioned in annual reports of NZSX-listed companies 2018–2020

Source: Excerpt from *Working Paper 2021/06: Reviewing TCFD information in 2017–2020 Annual Reports of NZSX-listed companies*, p.15.

	NZSX-listed companies	2018	2019	2020	# pages	See page
1	Air New Zealand	Intent to publish	Intent to publish	Dedicated section	2	21
2	AMP Limited	Partial	No mention	Casual reference	NA	
3	ANZ Bank	No mention	Dedicated section	Dedicated section	1	23
4	A2 Milk	No mention	Intent to publish	Intent to publish	NA	
5	Contact Energy	Indexed throughout	Indexed throughout	Indexed throughout	1	80
6	Downer Group EDI	Partial	Dedicated section	External link	1	71
7	F&P Healthcare	No mention	No mention	Indexed throughout	1	81
8	Genesis Energy	No mention	No mention	Dedicated section	12	24
9	Mercury	No mention	Indexed throughout	Indexed throughout	1	82
10	Meridian Energy	Partial	External link	External link	1	72
11	Napier Port Holdings	No mention	No mention	Intent to publish	NA	
12	New Zealand King Salmon	No mention	No mention	Intent to publish	NA	
13	NZ Oil and Gas	No mention	No mention	Dedicated section	20	36
14	Refining NZ	No mention	No mention	Intent to publish	NA	
15	New Zealand Exchange	No mention	No mention	Intent to publish	NA	
16	Precinct Properties NZ	No mention	No mention	Intent to publish	NA	
17	Property for Industry	No mention	No mention	Dedicated section	5	57
18	Port of Tauranga	No mention	No mention	Partial	1	84
19	Sanford	No mention	Intent to publish	Intent to publish	NA	
20	Scales Corporation	No mention	No mention	Dedicated section	2	62
21	Spark	No mention	No mention	Partial	1	85
22	Summerset	No mention	No mention	Intent to publish	NA	
23	Telstra	No mention	No mention	External link	1	73
24	Vector	Casual reference	Casual reference	Intent to publish	NA	
25	Westpac	Dedicated section	Dedicated section	External link	5	74
26	Warehouse Group	No mention	No mention	Casual reference	NA	
27	Z Energy	No mention	No mention	Dedicated section	5	64
	Total companies that mention TCFD	7	10	27		

Strong mention – reports on all core elements

Medium mention

Light mention

1: Dedicated section

4: Partial

6: Casual reference (in an informal manner)

2: External link (to separate TCFD report)

5: Intent to publish TCFD information

3: Indexed throughout