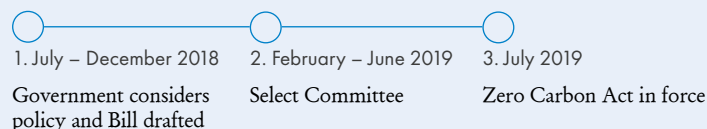


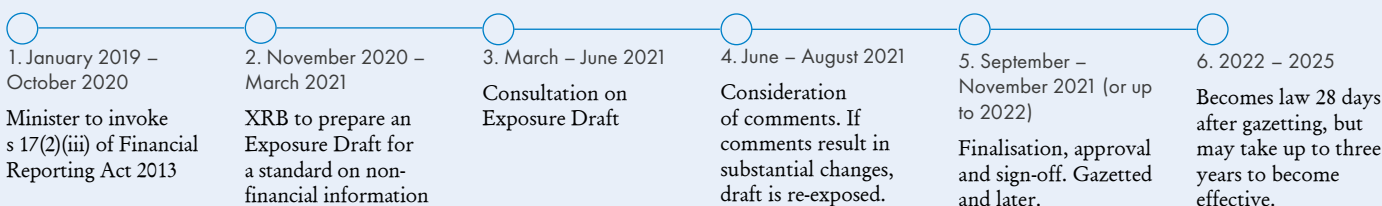
Package of Climate Change Reporting Recommendations

Think Piece 30: October 2018

Zero Carbon Bill timeline



XRB standard for non-financial information timeline



Comparing the tentative timelines for enactment of the Zero Carbon Bill and the development of XRB reporting standards on non-financial information

Wendy McGuinness

Wendy is the Chief Executive of the McGuinness Institute.

BACKGROUND

New Zealand's geography, ecosystem, natural resources, agricultural base and environmental values require a unique approach to addressing climate change. This creates a problem to solve that is both urgent and important.

Information is urgently needed to inform investors and insurers, and to shape New Zealand's public policy. At the same time, it is important that we produce standards to ensure that reports can be compared and relied upon. To our knowledge, there are no international mandatory standards for climate change reporting on which we could base a New Zealand standard, extending the lead time required for us to produce one (see the illustration above).

Report 17 – Building a Reporting Framework Fit for Purpose focused on ensuring the reporting framework – our information infrastructure – is sufficiently durable and flexible. The report found that strengthening annual report requirements for climate change disclosures would require the amendment of several pieces of legislation, which would take a substantial amount of time and result in a fixed set of requirements not necessarily appropriate for today's rapidly changing environment. For these reasons, the Institute proposes a two-staged solution.

PROPOSAL

Filing a *Statement of Climate Change Information* should be mandatory for a category of entity called 'climate change reporting entities'. This term should be legally defined to include all FMC reporting entities, 'large' companies, state

sector entities, local governments, registered charities (Tier 1) and other significant entities either connected to vulnerable infrastructure or with significant carbon emissions and pollutions (ideally to be determined by the independent Climate Change Commission proposed under the Zero Carbon Bill).

The statement should be two pages and should be organised around the three steps of problem solving: identification, measurement and management. The identification of climate change could take the form of risk identification, both in terms of impact of climate change on the entity or impact of the entity on climate change. Measurement could be outlined in terms of metrics and costs used to benchmark progress towards mitigating climate change risk. Management could be described in terms of controls, targets and initiatives intended to mitigate the risks of climate change to the company or to the environment.

Stage 1: Zero Carbon Bill

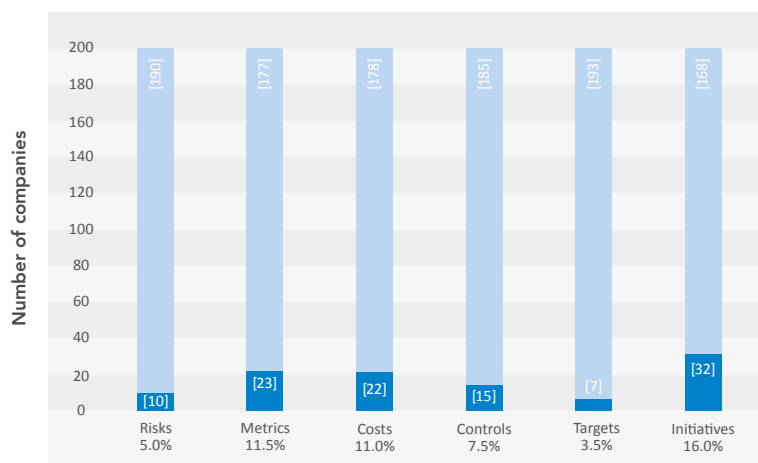
The first stage is to take advantage of the opportunity presented by the Zero Carbon Bill to make climate change information part of regulatory filings by incorporating the statement into the Bill. Currently, regulatory filings are only required of companies or registered charities, meaning that a public register for the state sector and local government organisations may need to be established.

The advantage of this approach is primarily that the Bill is scheduled to be enacted by July 2019, meaning it offers a short-term solution that addresses the urgency of climate change. The requirements could be reset at the beginning of each year (ideally by the Climate Change Commission), enabling them to be refined as users (e.g. shareholders, bankers, creditors, policy analysts, scientists and engineers) and their specific information needs became more apparent.

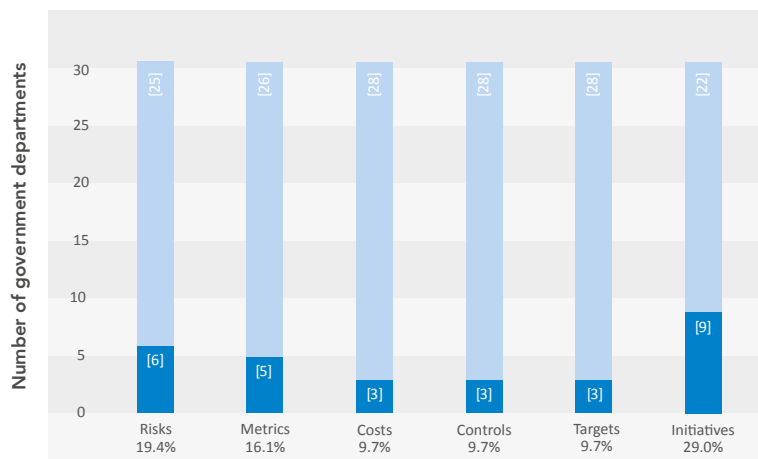
The following graphs are excerpts from *Working Paper 2018/03 – Analysis of Climate Change in the Public and Private Sectors* (pp. 6, 17, 19, 21, 24 and 52) that illustrate the current quality of climate change information disclosures made by significant organisations in their annual reports.

Comparing climate change information disclosed in the 2017 annual reports of significant organisations

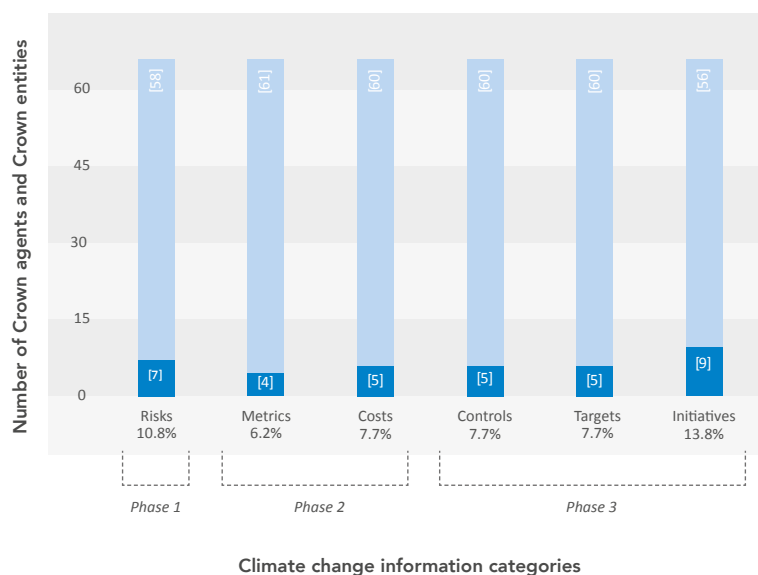
(i) 2017 Deloitte Top 200 companies [200]



(ii) Government departments [31]



(iii) Crown agents and Crown entities [65]



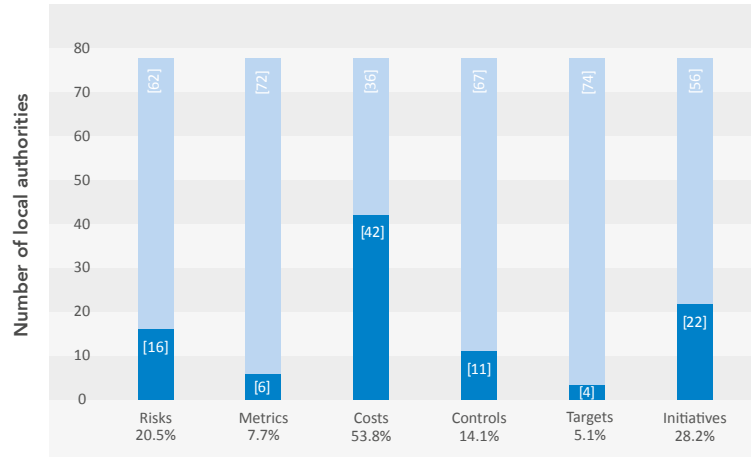
■ Did not disclose climate change information ■ Disclosed climate change information

Comparing climate change information disclosed in the 2017 annual reports of significant organisations

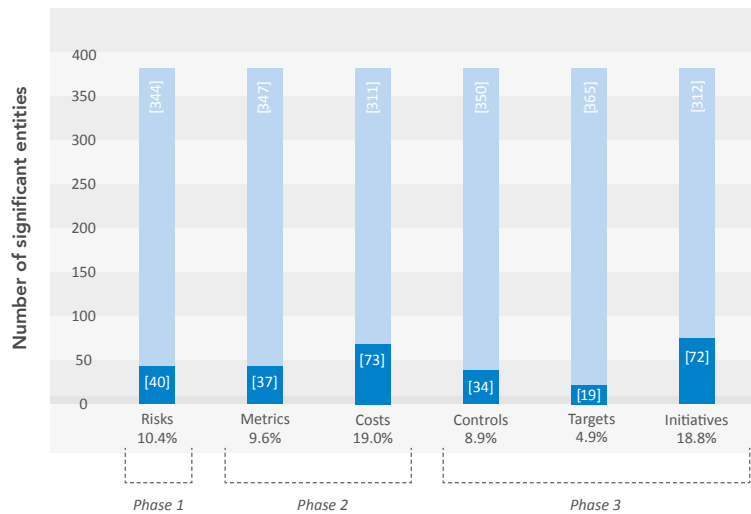
(iv) State-owned enterprises [14]



(v) Local authorities [78]



(vi) Total New Zealand entities analysed [384]



Climate change information categories

Did not disclose climate change information Disclosed climate change information

The statement could be survey-style, enabling the information to be collected and collated immediately for public release. This, along with the fact that it would allow an initial period of transition to highlight any issues and challenges, is why the Institute recommends this as the first of the two stages.

Stage 2: XRB reporting standards for non-financial information

The second stage is to require the adoption of reporting standards for non-financial information, in line with the Productivity Commission’s Recommendation 7.4 to use s 17(2)(iii) of the Financial Reporting Act 2013.¹ The development of these standards could take the form of an integrated reporting standard, which does not need to be included in the Zero Carbon Bill.

CONCLUSION

The need to combat and adapt to climate change is leading to urgent demand by investors and other stakeholders for climate change reporting. Reporting forms the basis for New Zealand’s information infrastructure, which is the evidence upon which investors, policy-makers and other stakeholders base their decisions. The current external reporting framework is not providing sufficient climate change information to secure New Zealand’s long-term future (see graphs on previous pages). The best way to address this is to firstly require a *Statement of Climate Change Information* as part of regulatory filings through the Zero Carbon Bill. Secondly, content requirements could be strengthened by producing standards under s 17(2)(iii) of the Financial Reporting Act 2013.

References

1. New Zealand Productivity Commission. (2018). *Low-emissions Economy*. Retrieved 7 September 2018 from https://www.productivity.govt.nz/sites/default/files/Productivity%20Commission_Low-emissions%20economy_Final%20Report_FINAL_0.pdf.

For more information about this research project, see www.reportingnz.org.

Key extracts from Report 17 – Building a Reporting Framework Fit for Purpose



Key reflections

The framework lacks stewardship.

The framework is fragmented, complex and inefficient.

The framework is outdated and not adapting to current trends.

The framework is unbalanced across entity types.

The private sector system focuses on shareholders.

Financial statements retain a lot of weight, particularly in the private sector, but do not reflect the increasing importance of intangible asset market value.

Annual reports are not being used to their full potential and are at risk of being misused as marketing documents.

Key recommendations

1

Undertake a review of the reporting framework with the aim of establishing a clear purpose and set of guiding principles in legislation.

2

Aggregate legislation under one act called the Reporting Act, which will cover both financial and non-financial information across the public and private sectors.

3

Develop a central register for all regulatory filings in the public and private sectors and prepare a regular operational report.

4

Increase penalties for non-compliance and ensure monitoring.

5

Remove the requirement for NZX-listed companies to produce half-year reports and improve the quality and policing of NZX announcements instead.

6

Re-evaluate the thresholds and criteria for company reporting requirements (e.g. definition of large) with a view to simplifying the system.

7

Use a two-stage approach to add a Statement of Climate Change Information to regulatory filings:
1. introduce requirement to the Zero Carbon Bill,
2. enable XRB to prepare a standard for non-financial information.

8

Enable XRB to produce reporting standards for:
1. content and presentation of financial statements
2. content and presentation of annual reports
3. disclosure of climate change information.

9

Require wellbeing statements as part of regulatory filings to improve reporting on Treasury’s living standards framework and the four capitals.



The McGuinness Institute is a non-partisan think tank working towards a sustainable future, contributing strategic foresight through evidence-based research and policy analysis.
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