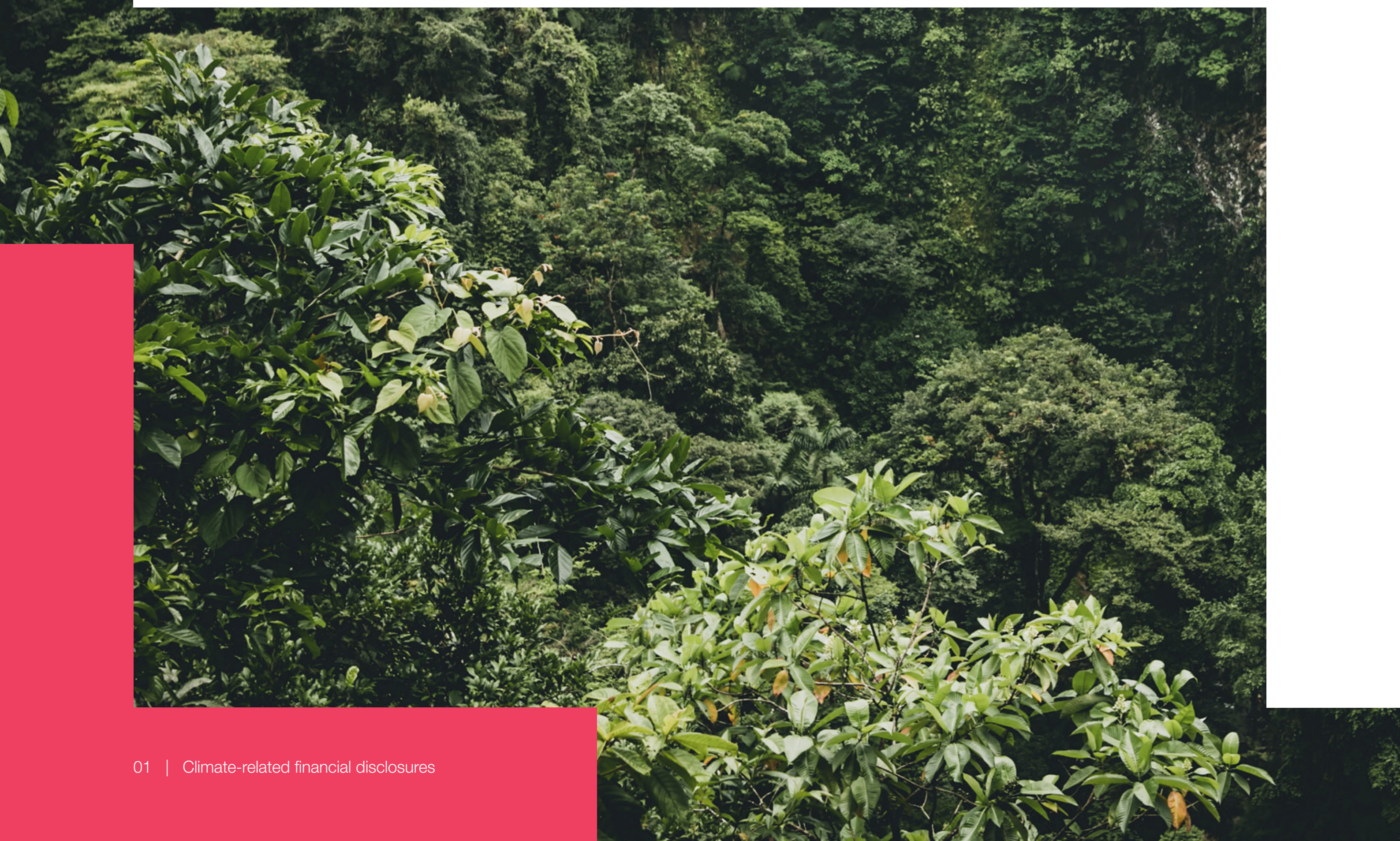
Getting ready for mandatory climate-related financial disclosures in New Zealand

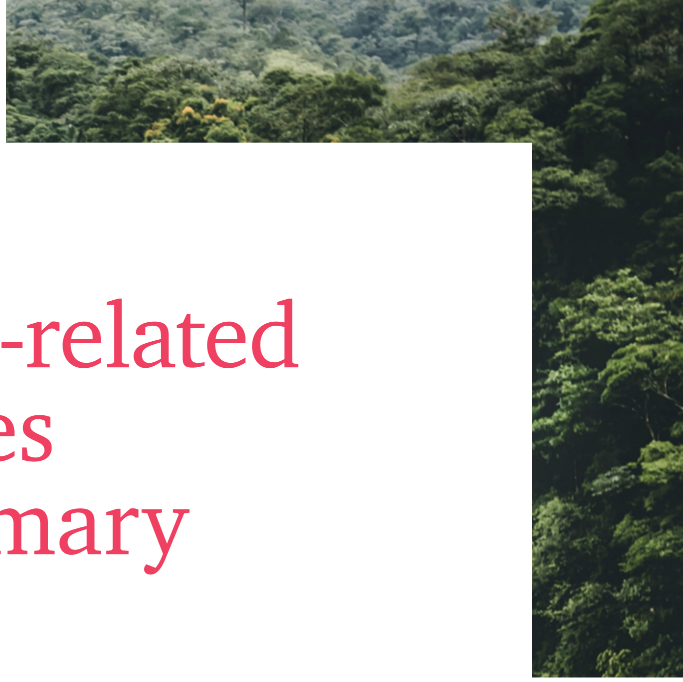
June 2021

Getting ready for mandatory climate-related financial disclosures

Climate change is a critical issue that will increasingly directly impact all aspects of business. As change continues to accelerate, businesses must consider climate risk in all aspects of the organisational decision-making process, or risk being left behind by those who are seizing the opportunities and responding proactively. The recent Climate Change Commission advice illustrates the urgency of climate change issues for business and underscores that regulatory change is coming.

While often viewed as a risk to business, the transition to a low-emission and climate resilient economy will also provide opportunities for many organisations. In this paper, we outline the proposed mandatory climate-related financial disclosures legislation and suggest ways for businesses to prepare.





Mandatory climate-related financial disclosures legislation – a summary

In April 2021, the New Zealand Government introduced a Bill to Parliament to mandate climate-related financial disclosures. Around 200 organisations will be affected. This includes most NZX listed issuers, large registered banks, licensed insurers and managers of investment schemes. The Bill has been described as a world first and will lead to the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) – already being adopted around the world on a voluntary basis – becoming mandatory in this country.

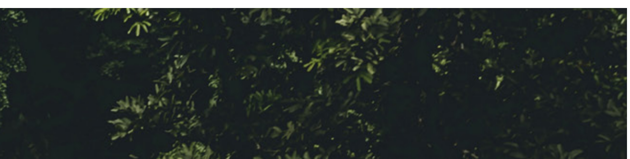
In New Zealand, the proposed mandatory reporting requirements will support investors' understanding of the full financial implications of climate change on businesses. They will also force organisations (and their directors) to take responsibility for understanding and disclosing material climate risks as they have historically done for financial information.

Impacted organisations will be legally required to consider and disclose climate change risk via new annual 'climate statements'. These will be based on standards issued by the External Reporting Board (XRB). Draft standards are to be shared from July 2022. They are being developed in line with the TCFD recommendations and will require organisations to assess the climate risks and opportunities for their business across four thematic areas: governance, strategy, risk management, and metrics and targets.

Failure to appropriately disclose its climate risks could lead to fines for both an organisation and its directors. There is even the possibility of imprisonment for directors if an offense is deemed to be committed.

The Bill includes a requirement that, where climate statements disclose greenhouse gas emissions, that element of the disclosure is to be the subject of assurance by a qualified climate-related disclosure assurance practitioner.

Annual climate statements will be required for financial years commencing in 2022 once the Bill has passed. This means the first mandatory disclosures will be made in 2023.



What should impacted New Zealand companies be doing now to prepare?

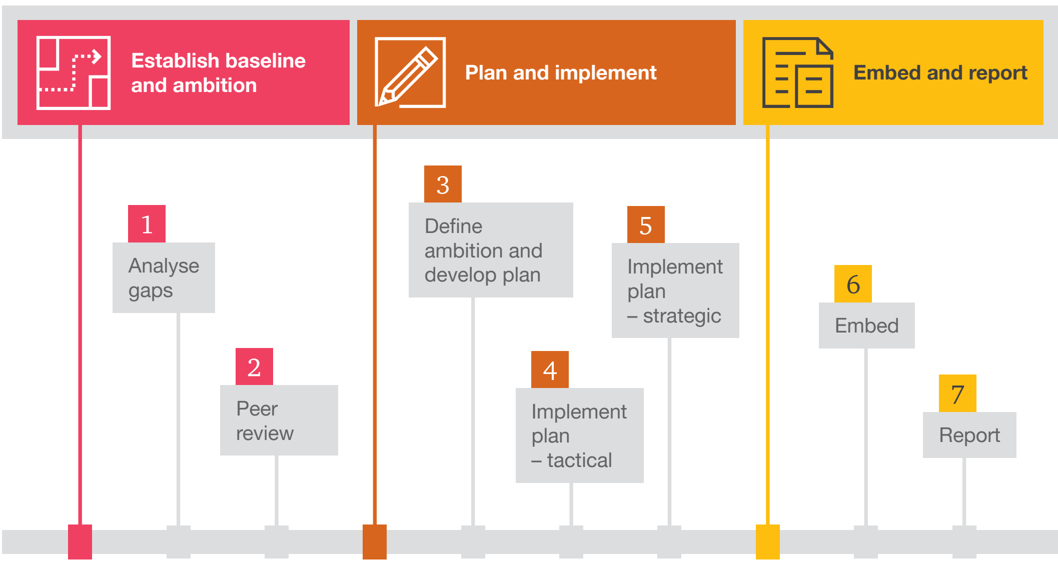
The XRB has confirmed that their final standard (due in December 2022) will be based on the TCFD framework. With this knowledge, there is a lot companies can do now to get their climate risk disclosure journey underway.

While it can feel daunting, with a bit of effort, organisations can start to integrate considerations of climate change into both their high-level strategic and day-to-day decision making.

We encourage all businesses to see climate-related disclosure or 'CRD' as a way to make a fundamental shift in business models and values. We will all benefit from a more proactive, ambitious and accelerated response to the challenges of climate change.

By starting to embed climate risk considerations into risk management and creating greater transparency through disclosures, we can mitigate the risks and transform businesses.

Adopting an approach that considers all aspects of the climate readiness journey will ensure companies are well positioned to respond to both the risks and opportunities. The steps below demonstrate how organisations can move through the CRD journey.



PHASE 1: Establish baseline and ambition

1 Analyse gaps

You may be well on your way to addressing some of the recommendations, but only in the early stages for others. Undertaking a **formal gap analysis** against the 11 TCFD recommendations can be useful to identify where you are further along and where you may require more focus and effort.

2 Peer review

Talk to others in your industry, as well as banks and insurers to understand more about what might be asked of you. **Review TCFD disclosures of peers** to see how others have approached the exercise, including ‘placeholders’ they have used to identify their next steps where gaps were identified.

Have the conversation at board and executive level – what do climate change and a mandatory disclosure regime mean in the context of your organisation? Given the emphasis on addressing climate change at an executive management level and the mandatory responsibility of directors in New Zealand outlined by the Bill, it will be important for your board and senior leadership team to be educated and involved.

Making sure boards are engaged and equipped, and governance updated

Investors and other stakeholders are increasingly scrutinising the role that boards play in overseeing climate-related issues. Therefore director oversight is a crucial element in the governance of climate-related risks and opportunities. Companies will need to ensure that their boards have the right knowledge and tools to carry this out and are supported by an appropriate governance structure.

Clear accountability for climate change should be defined within the board and subcommittee terms of reference. Individuals or committees designated with this should be sufficiently qualified or trained in climate risk, and boards given a sufficient amount of high-quality, relevant information from senior management. These steps will enable boards to effectively debate and make decisions in a way that is comprehensively informed by the implications of climate change.

Consider using the World Economic Forum and PwC’s guiding principles on how to set up effective climate governance on boards to facilitate internal discussions about climate governance.

PHASE 2: Plan and implement

3 Develop and implement a plan for action

This will allow your organisation to effectively integrate considerations of climate change across your strategic, business and operating models. Do:

- Understand where you want to be positioned against peers and how ambitious you may want to make some of your goals.
- Schedule tasks that may take time to address, for example obtaining granular data.
- Where relevant, have early discussions with risk assurance, audit and legal teams around content that you propose to disclose so that they can contribute to the plan early on.

4 Implement plan – tactical

Implement tactical responses that can be achieved easily. This could include reviews of governance procedures to see where climate responsibilities need to sit. Identification of physical and transition climate risks should also occur to inform other elements of the work programme, even if it is on a simplistic basis to start.

5 Implement plan – strategic

More **strategic responses** should be planned, for example scenario analysis to provide a long-term and strategic view of how business models and operations could be impacted by physical and transition risks. Start to integrate climate risk into your company's existing risk management framework, and develop the approach to quantifying the risks via determining the key metrics and targets that will be used.

Embedding climate into risk management

It is useful for investors and other stakeholders to understand how an organisation incorporates financial risks from climate change into risk management practice. This equips them to better understand a company's overall risk management profile and activities. Questions to consider would be:

- How is climate risk considered in your company's enterprise wide risk framework?
- Have you built climate risk into your annual internal audit plan?

Companies need to start thinking about climate change as a financial risk and embedding it into their risk management frameworks, policies and management reporting. This means that companies should approach climate risk in the same way that they approach any other financial risk i.e. identify, measure, monitor, manage (and mitigate), and report.

Embedding climate within existing risk management practices requires an appropriate governance structure, a good knowledge of the nature of climate risks, a strategic view of the material climate-related risks to the firm under different scenarios, and tracking of relevant metrics and targets.

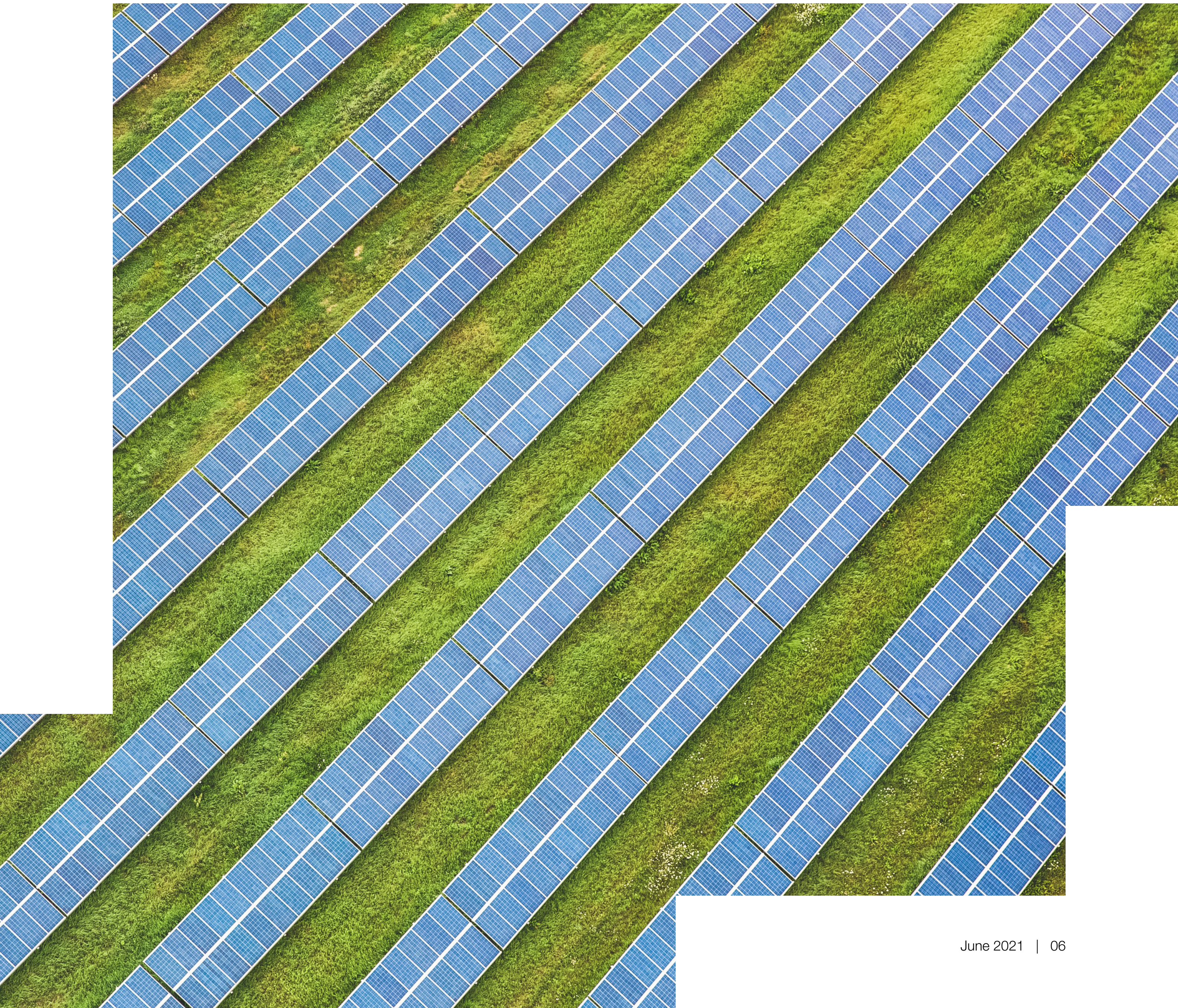
PHASE 3: Embed and report

6 Embed

Steps will need to be taken to **embed** considerations of climate into culture and decision-making. Examples might include linking remuneration to climate-objectives, and wider staff training.

7 Report

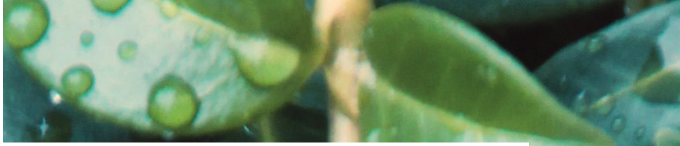
Disclose the company's progress on the journey towards meeting the TCFD recommendations in your mainstream financial reports. Identify priorities to close gaps and strengthen robustness of reporting, that will be updated in subsequent years' disclosures.



Climate change and business transformation

In New Zealand and across our PwC Global network, we are hearing that pressure to understand and disclose climate change-related risks (in particular, greenhouse gas inventories) is mounting from investors and banks. We have seen plans or policies around climate change risk become a condition for services such as refinancing. It is also becoming commonplace in investor due diligence for private equity firms based in Europe.

Around the globe, sustainability and climate change has grown to be one of the biggest drivers of transformation and something to consider for organisations across all sectors at the executive and board level. In New Zealand, robust and credible consideration of climate change continues its rapid development from a ‘nice-to-have’ to a ‘need-to-have’. The most effective time to take action to address the issues and opportunities it represents is now.




PwC helping you on your Climate Related Disclosure journey

PwC's **TCFD diagnostic tool** supports the first step in an organisation's climate change readiness journey by creating a baseline.

In order to formulate your approach, a practical first step is to understand how your existing public disclosures, processes and policies align with the TCFD recommendations and where priority areas to address might lie. To help companies do this, PwC has developed a proprietary tool to assess and score the maturity of a company's existing disclosures and practices relating to management of climate-related issues.

The tool contains a series of questions addressing each TCFD recommendation. The questionnaire is completed based on a review of a company's reporting, disclosures, processes and policies.

This will provide you with:

- An initial assessment of the alignment between your current reporting and the TCFD recommendations.
- Considerations for what actions are needed to address the TCFD recommendations.

PwC's scenario analysis tool, **Climate Excellence,** has been designed to identify climate-related risks and opportunities and serves as a basis for climate reporting. This software for scenario analysis is a well-established tool for assessing specific climate transition risks.

Companies and investors use it to perform quicker, simpler scenario analyses based on an extensive database of predefined, recognised climate scenarios. These scenarios are used to identify a company's financial risks with regard to transitional and physical implications of climate change. The tool is systematic, methodical and provides answers to specific questions, for example:

- How will this affect our cost and sales position?
- What technologies will determine the future in each region?
- How will our clients be affected by the change?

This will provide you with:

- An assessment of risks and opportunities at a global, product and technology level.
- Analysis of systemic risks and opportunities (most financial impacts are linked not to CO_2 prices but to changes in input prices and competitive dynamics).
- Measurements of adaptability (ie, risk management capability) and assessment of actions in financial terms for companies.
- The results, including risk drivers and early warning indicators as well as financial consequences, can be integrated directly into standard credit and investment procedures as well as strategic and asset planning.

How we can help

Our Sustainability & Climate Change team at PwC New Zealand helps businesses to look at the bigger picture, by striking a balance between staying competitive, driving innovation and preserving our natural environment.

We have the resources and expertise to assist you and your organisation to stay ahead of the curve. We can support your organisation to mitigate risk and respond to the challenges and opportunities that a transition to a low carbon future represents, as we all work together to create a sustainable, environmentally responsible Aotearoa.

Contacts

ANNABELL CHARTRES
Partner
Sustainability & Climate Change
PwC

PAMELA TINDALL
Director
Sustainability & Climate Change
PwC

pwc.co.nz

NZDT-128005831