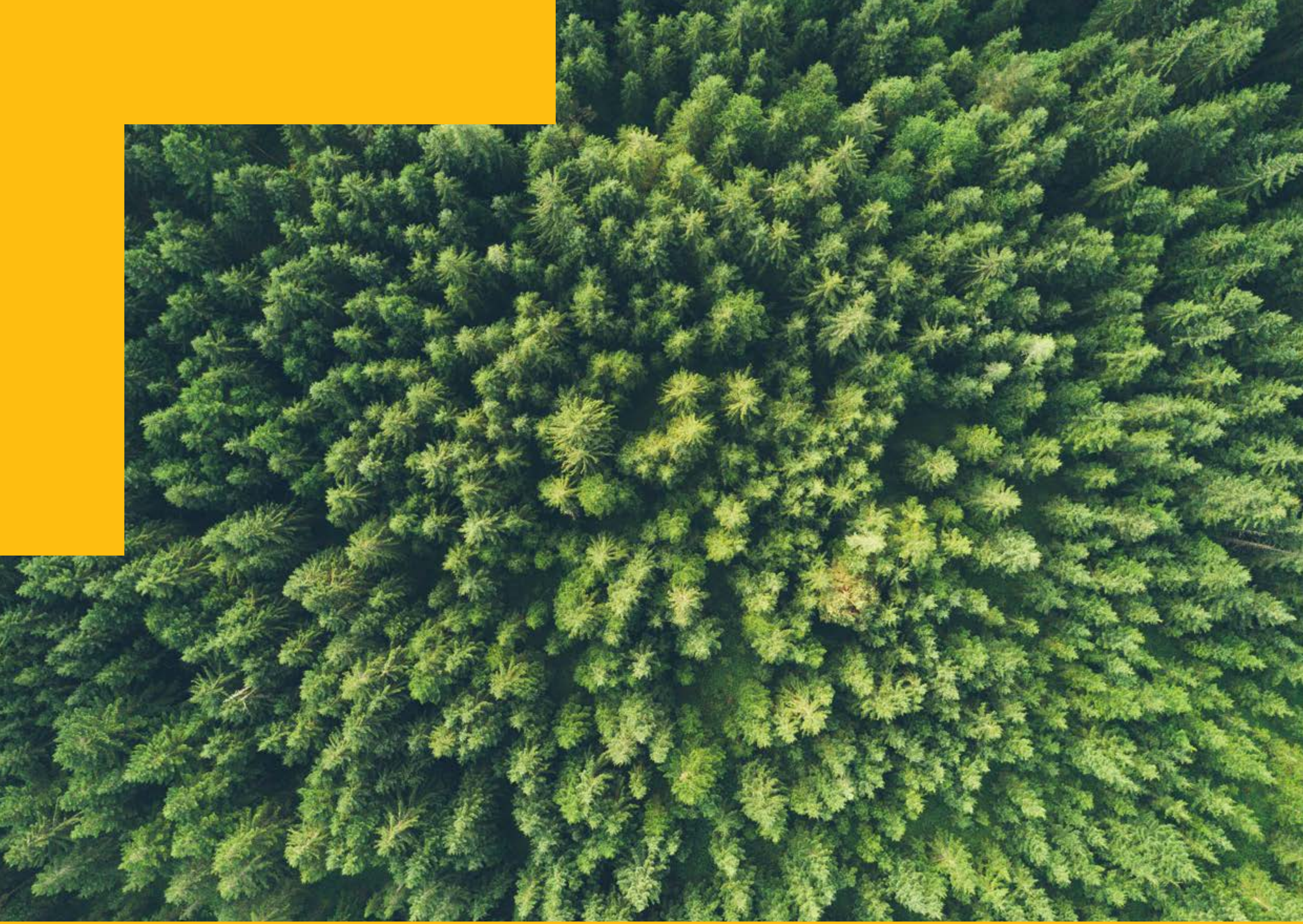
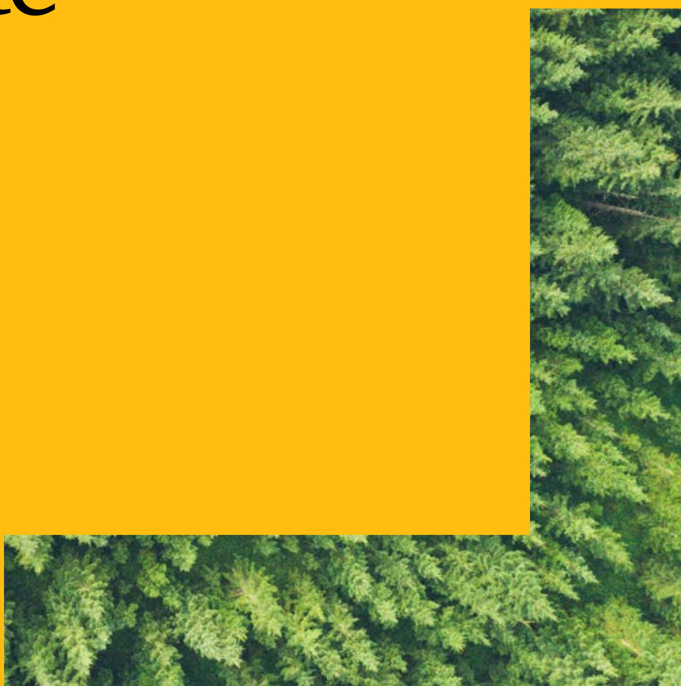
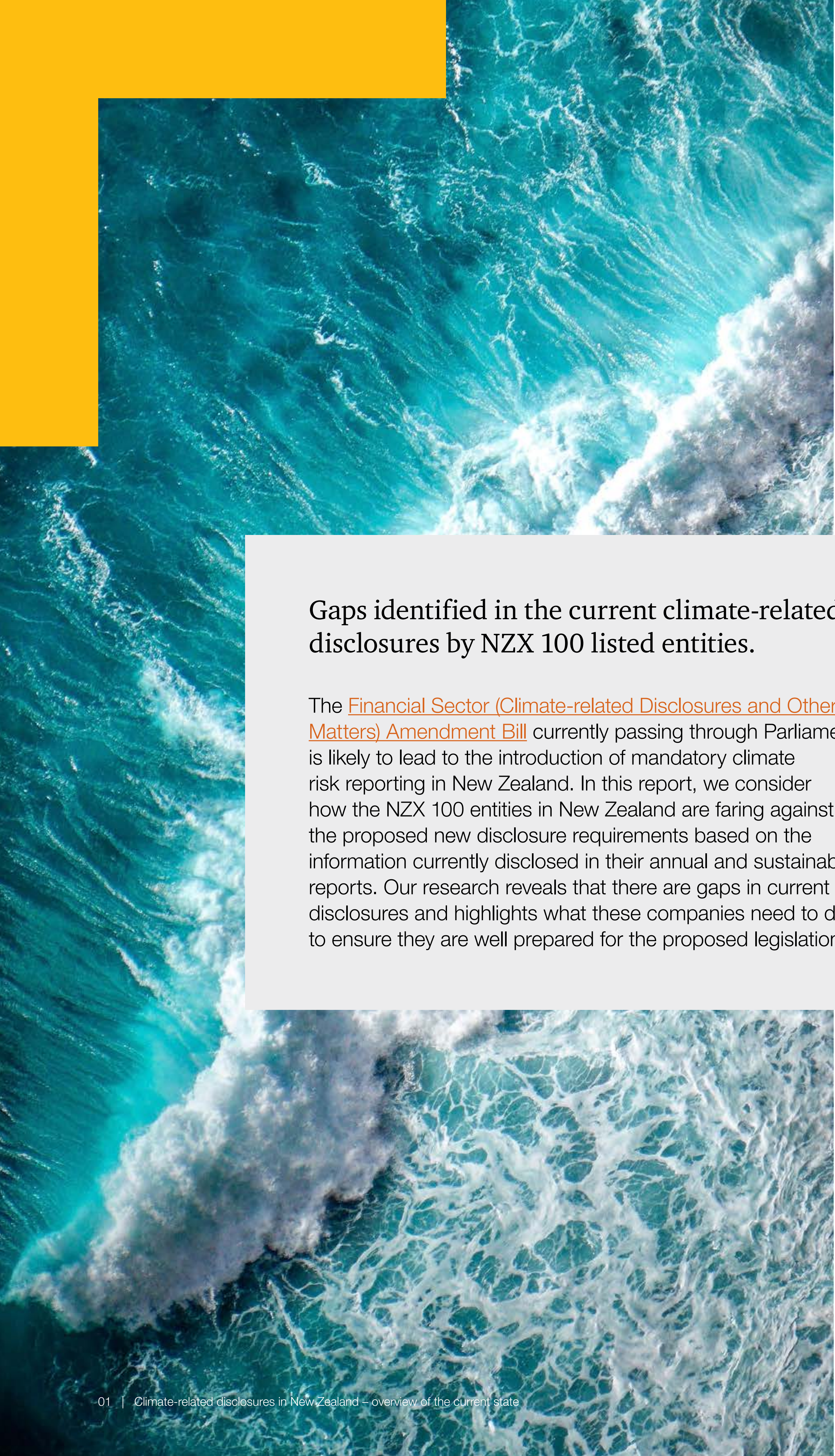


Climate-related disclosures in New Zealand – overview of the current state

August 2021





Gaps identified in the current climate-related disclosures by NZX 100 listed entities.

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill currently passing through Parliament is likely to lead to the introduction of mandatory climate risk reporting in New Zealand. In this report, we consider how the NZX 100 entities in New Zealand are faring against the proposed new disclosure requirements based on the information currently disclosed in their annual and sustainability reports. Our research reveals that there are gaps in current disclosures and highlights what these companies need to do to ensure they are well prepared for the proposed legislation.

Proposed mandatory climate-related disclosures in New Zealand

In April 2021, the New Zealand Government introduced a Bill to Parliament to mandate certain climate-related disclosures for publicly listed companies and large FMC entities. It aims to support and accelerate New Zealand's transition to a zero carbon economy. These companies will be required to disclose the impacts of climate change on their business and to explain how they will manage climate-related risks and opportunities.

You can find more information on the details of the legislation in our recent publication: *Getting ready for mandatory climate-related disclosures in New Zealand.*

While global markets are already starting to factor in climate risk considerations, the 2021 New Zealand PwC CEO Survey showed that only 27% of CEOs were 'extremely concerned' about climate change and environmental damage compared to 42% in 2020. This reflects a general sentiment that climate-related risk is not considered an immediate problem possibly because focus has shifted to the impacts caused by the COVID-19 pandemic. The new reporting standards will be issued by the External Reporting Board (XRB). Exact details of the required disclosures are yet to be confirmed. However, it has been announced that the standards will be developed in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which we have used for the purpose of this analysis.

The TCFD was set up to develop a voluntary framework to provide decision-useful information to markets via the mainstream corporate report. In 2017, the TCFD released its recommendations with four core elements applicable to companies across all sectors and jurisdictions. They are:

- **Governance**
  Disclose the company's governance around climate-related risks and opportunities.
- **Strategy**
  Disclose the actual and potential impacts of climate-related risks and opportunities on the company's business, strategy and financial planning where such information is material.
- **Risk**
  Disclose how the company identified, assessed and managed climate-related risks.
- **Metrics and targets**
  Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

How ready is New Zealand for the proposed mandatory disclosures?

If approved by Parliament, disclosures may be required as early as 2023, meaning comparative information will be needed for the financial year commencing in 2022. Companies must start thinking about this reporting now.

Corporate disclosures of matters relating to governance, strategy, risks, metrics and targets will not be entirely new to listed companies who already have an obligation under Principle 4 of the NZX Code of Corporate Governance to provide, at least annually, non-financial disclosures relating to environmental, economic and social sustainability factors and practices. The current requirement is, however, principle based and less prescriptive than the formal standard is likely to be.

In order to understand the maturity of TCFD disclosures within New Zealand, PwC analysed the current climate related disclosures provided by the NZX 100 listed entities in their annual and/or sustainability reports against the TCFD framework.[1]

While the disclosures will become mandatory for all large FMC reporting entities, looking at the top 100 listed companies provides a good starting point for understanding the current market practice for climate-related disclosures.

We found that some companies are already making good progress by voluntarily applying the TCFD recommended disclosures, but for most there is still a large amount of work that needs to be done. Undertaking scenario analysis, and analysing and setting climate-related metrics and targets (including scopes 1, 2 and 3 for greenhouse gas emissions), requires data that companies may not currently collect. It will take time for companies adopting the TCFD recommendations to build up to detailed and meaningful disclosures.

Based on our analysis, there is a large amount of work that still needs to be done by affected entities in order to bring the TCFD disclosure framework into mainstream reporting.

1 This review included the most recent annual and sustainability reports available on 15 June 2021. For most reporters this included 31 December 2020 or 31 March 2021 reports, however, prior year reports were used if the most recent financial year report was not yet publicly available.
Note that 10 of the NZX 100 companies are ETFs which have been excluded from our assessment.

Key observations

Our observations show that while some New Zealand companies have voluntarily made good progress towards TCFD framework disclosures, the majority of NZX 100 listed companies are not yet publicly disclosing climate-related risks and opportunities.

Large companies are leading the charge for TCFD disclosures

The TCFD was mentioned in 37% of all annual and/or sustainability reports that we analysed. This ranged from acknowledging a company was working towards future TCFD disclosures, to actual disclosures of the four key themes.

The TCFD global status update on climate-related financial disclosures for 2020 found that nearly 60% of the world's largest public companies support the TCFD and/or report in line with the TCFD recommendations. Despite New Zealand being the first country to mandate climate-related financial disclosures, companies in this country are lagging behind global adoption rates.

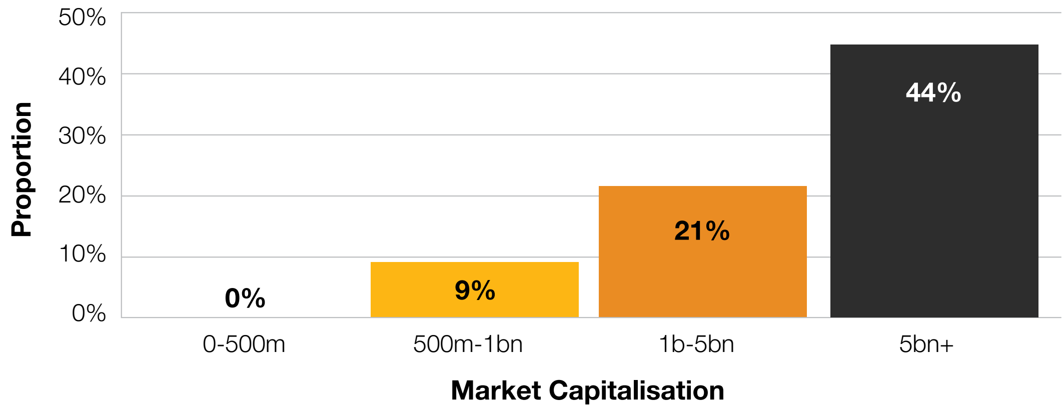
Of the NZX 100, 15 companies applied the four core themes of the TCFD's recommended climate-related financial disclosures to varying levels of completeness.

From a sector perspective, energy companies lead the way for TCFD disclosures – making up six out of the 15 companies that provided some level of TCFD related disclosures. This is consistent with the TCFD global status update which found that for 2017-2019, energy companies have had the highest percentage of disclosures. The more companies that adopt the TCFD recommended framework, the easier it becomes for other companies within the industry to adopt the framework as it creates clear benchmarks and standards for reporting.

There is also a correlation between company size and disclosure as shown in the table below. Larger companies have more resources to invest into researching the requirements and developing and implementing processes, systems and controls to enable them to provide climate-related disclosures. Our research showed that 44% of reports of NZX 100 companies with a market capitalisation greater than NZ$5bn consider the TCFD framework. This is consistent with the TCFD global status update which found 42% of global companies with market capitalisation greater than US$10bn (approximately NZ$14bn) disclosed at least some information in line with each individual TCFD recommendation in 2019.

Although resource constraints may make it more difficult for smaller listed companies to adopt these proposed requirements early, all affected companies will need to begin considering how they can efficiently and effectively report climate-related disclosures. These disclosures should not be seen as a burden but as an opportunity to identify ways to manage risks posed by climate-change and seek new opportunities for growth.

Proportion of TCFD Disclosure by Size

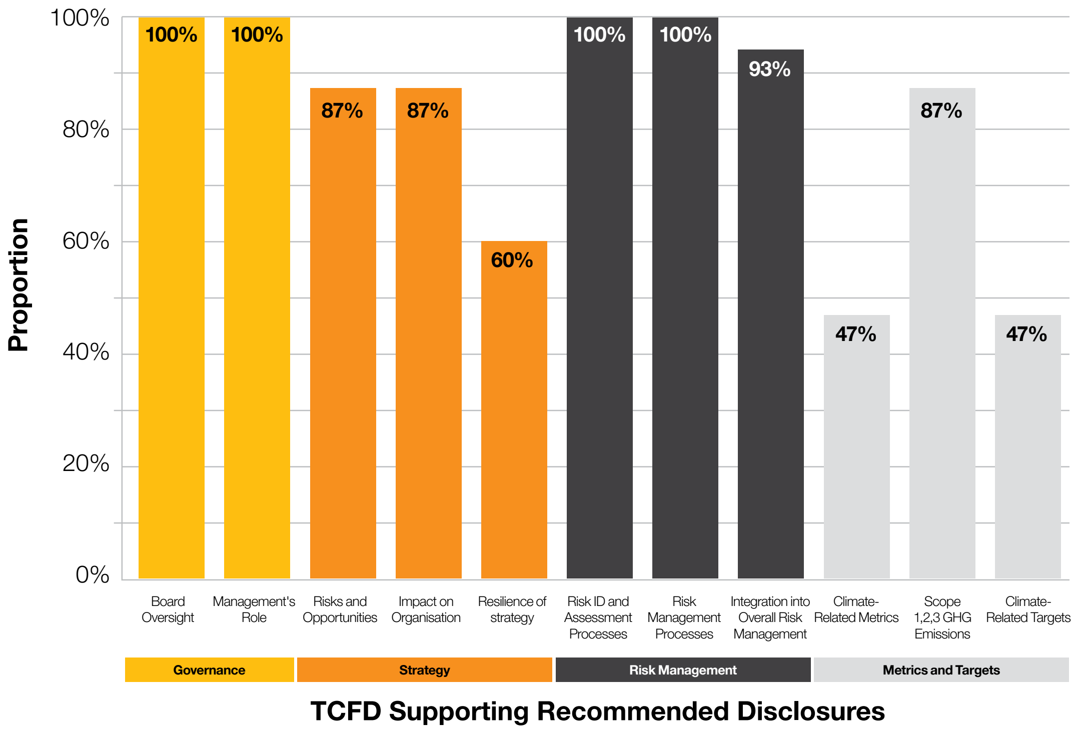


We have further analysed the disclosures of the 15 companies that have voluntarily disclosed under the TCFD recommendations below.

Qualitative disclosures are more complete than quantitative disclosures

The TCFD also released 11 recommended disclosures that support effective and complete disclosures under the four core themes of governance, strategy, risk management and metrics and targets.

Completeness of TCFD Supporting Disclosures



Out of the 11 supporting disclosure recommendations, disclosures relating to governance, risk management and greenhouse gas (GHG) inventory were the most complete. Disclosures relating to scenario analysis and non-GHG metrics and targets were less common.

Scenario analysis

The TCFD recommends that companies disclose the "resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario"[2]

Scenario analysis helps companies identify and assess the potential implications of a range of plausible future outcomes – both favourable and unfavourable. The TCFD recommends that companies use the 2°C scenario alongside two or three other scenarios relevant to the company. The 2°C scenario lays out a pathway and an emissions trajectory consistent with holding the increase in the global average temperature to a maximum of 2°C above pre-industrial levels. This aligns with the Paris Agreement which was adopted by more than 190 countries, including New Zealand, in 2015. Its goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

The analysis can be qualitative and/or quantitative. The TCFD recommends that companies begin with qualitative scenario narratives to explore the range of potential implications. They should then use quantitative information to illustrate potential pathways and outcomes. Quantitative scenarios can be achieved by using existing external scenarios and models from third party providers such as the International Energy Agency (IEA) and Intergovernmental Panel on Climate Change (IPCC) or by developing their own in-house modelling.

Although a handful of companies are using scenario analysis as part of their strategic planning, disclosures on scenario analyses are likely lower than other TCFD disclosures due to the complexities and specialist capability needed to conduct this analysis. Existing disclosures made by larger companies, both locally and internationally, may be a useful starting point to build knowledge about the requirements and how they are applied in practice. The TCFD technical supplement on scenario analysis also provides a good starting point for companies wanting to carry out their own.

2 Recommendations of the Task Force on Climate-related Financial Disclosures
https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

Metrics and targets

Aside from greenhouse gas (GHG) inventory, the lack of standardised data and metrics has resulted in more immature disclosures when compared to the other themes of governance, strategy and risk. The metrics which need to be disclosed by a company are dependent largely on the industry in which it operates and the information needs of its key stakeholders. Companies should consider including metrics on climate-related risks associated with water, energy, land use and waste management where relevant and applicable. These metrics will help a company monitor its own risks and performance. They will also allow investors and stakeholders to assess the company's exposure to climate-related issues as well as its progress in managing, or adapting, to these issues.

The TCFD has included several illustrative metrics in its supplemental guidance. However, it has recommended that further research and analysis by sector and industry experts is needed to help develop standardised metrics. Where metrics are not standardised, there is a risk that companies will not be objective and will disclose metrics that they are performing well in, while ignoring more negative metrics.

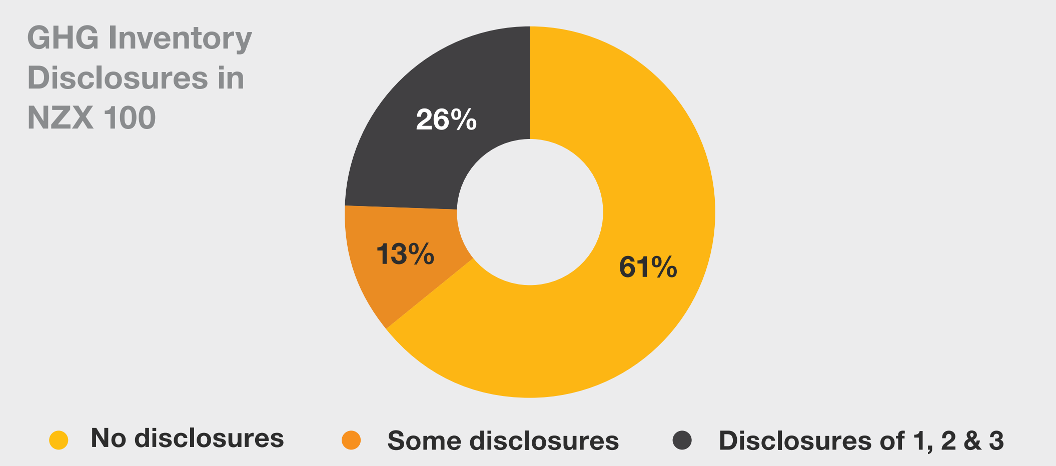
A key issue relates to data availability and quality. While companies currently report on many different financial metrics and targets, they may not have sufficient and reliable processes and tools in place to capture climate-related data. There will be risks associated with ensuring the data they are presenting is accurate and complete. Companies need to gain understanding and consider what processes, controls, and data tools can improve their oversight and disclosure of metrics and targets.

The headline numbers

- 37% of all annual and/or sustainability reports mention the TCFD recommendations.
- 15 NZX 100 listed companies applied the four core themes (governance, strategy, risk, metrics and targets) of the recommended climate-related financial disclosures.
- 6 of the 15 companies were in the energy sector.
- Our research showed that 44% of reports of NZX 100 companies with a market capitalisation greater than NZ$5bn consider the TCFD framework.

Disclosures of GHG Inventory are more prevalent

Out of the NZX 100 listed companies, 35 companies disclosed at least scope 1 of their GHG emissions. This is significantly more than the 15 companies in the NZX 100 using the TCFD framework. GHG disclosures are becoming a widely accepted metric for tracking emissions and prioritising actions to reduce emissions over time.



Scope 1 and scope 2 are required by the Greenhouse Gas Protocol. Scope 1 covers direct emissions from owned or controlled sources while scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling. Scope 3 includes all other indirect emissions that occur in a company's value chain. Although scope 3 is currently discretionary under the Greenhouse Gas Protocol, the current TCFD framework suggests that scope 3 should be disclosed where appropriate.

Companies are starting to focus on scope 3 emission sources as they often represent the majority of a company's GHG inventory so can provide the greatest opportunities for material emissions reductions.

The scope 3 framework provides 15 categories of activities both upstream and downstream of operations. Companies should disclose and justify any exclusions from these categories.

Scope 3 disclosures were made to a varying level of completeness. Eight companies disclosed which categories were being excluded within the scope 3 emissions calculation.

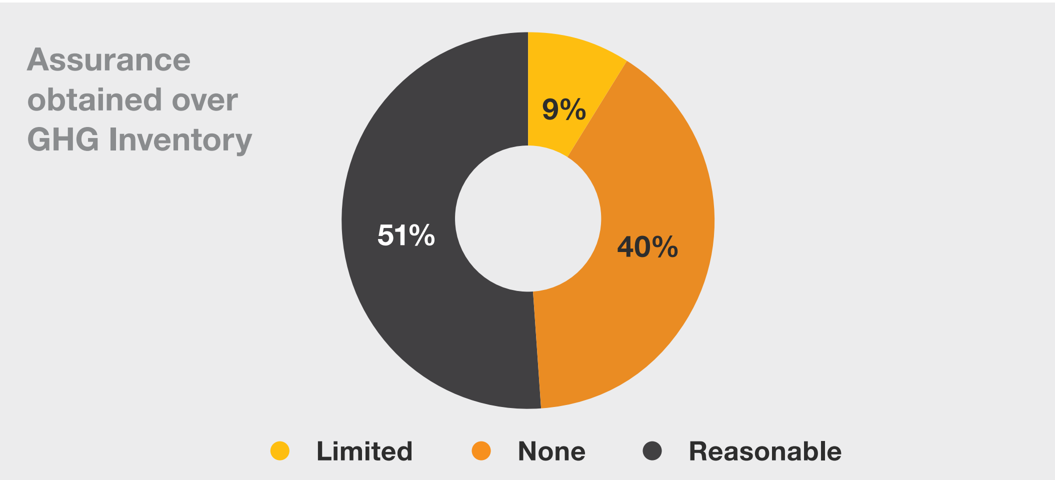
Larger companies are more likely to report on GHG inventory due to having greater resources to collate this information.

The headline numbers

- 13 of the 15 companies that reported using the TCFD framework fully disclosed their GHG inventory.
- 35 NZX 100 listed companies disclosed at least scope 1 GHG inventory.

There is a low level of external assurance provided over climate-related disclosures

Sustainability and climate related information are often disclosed in the Annual Report or a separate Sustainability Report. The information included in these reports is becoming increasingly more important when investors and other stakeholders make decisions relating to their dealings with the company and would often be considered together with the information presented in the financial statements. Company directors therefore have to ensure that they apply the same level of rigour when authorising the release of these documents to the public to ensure that they are accurate, complete and balanced as they would for financial disclosures in the financial statements. It is also important to ensure that the information provided in the Annual Report or Sustainability Report is consistent with other information available on the company's website, financial statements or other publications.



Depending on the nature of its business or the industry in which it operates, changes in climate-related disclosures (for example, realising a key benchmark the company has communicated to its stakeholders will not be achieved), may in certain circumstances meet the definition of "material information" in the NZX listing rules. Listed issuers will therefore also need to be mindful of their continuous disclosure obligations under the listing rules when assessing climate-related disclosures or subsequent changes in those disclosures in deciding when to update the market.

For mandatory disclosures the Amendment Bill (the Bill) requires that the greenhouse gas emissions component is the subject of an assurance engagement. The Bill does not specify which accounting and auditing standards assurance would need to be conducted in accordance with. However, the subject matter specific standard *ISAE (NZ) 3410 – Assurance Engagements on Greenhouse Gas Emissions,* which also requires the assurance practitioner to comply with *ISAE (NZ) 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information,* would provide an already well-established framework. The XRB's Extended External Reporting Assurance guide also provides guidance on how to apply ISAE (NZ) 3000 to sustainability reporting. The Bill does not specify the level of assurance (reasonable or limited), instead leaving it up to the market to decide. Out of the 35 companies that had some disclosures surrounding GHG inventory, 60% had some form of assurance over the disclosure.

Although the Bill only requires assurance over the greenhouse gas emissions disclosures, this would not prevent the assurance engagement covering the whole, or other parts, of the climate disclosures on a voluntary basis.

Where a company elects to obtain such assurance, the assurance practitioner's limited or reasonable assurance conclusion will cover the sustainability information in addition to the GHG statement.

However, these assurance procedures would be performed in accordance with *ISAE (NZ) 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information* or another ISAE (NZ) dealing with a specific underlying subject matter. It is also possible that the New Zealand Auditing and Assurance Standards Board may issue additional standards or guidance regarding the performance of these assurance engagements. Of the 15 companies with TCFD disclosures, only one quarter had limited assurance in accordance with ISAE (NZ) 3000 (Revised).

The headline numbers

- 21 out of the 35 companies in the NZX 100 that made disclosures surrounding GHG inventory had obtained some form of assurance over those disclosures.
- 27% of the 15 companies with TCFD disclosures had limited assurance.

Where to from here?

Some companies have started making progress in their climate-related financial disclosures. However, there is a need for significant and rapid progress if companies are to be in a position to comply with the disclosure requirements should they be enforced as early as 2022.

Companies should not see these disclosures as a burden. Instead, they can use them as a framework to help shape their business and strategies in order to transition to a necessary lower-emissions economy. Stakeholders are also starting to demand more information around companies' environmental impact and the climate-related risks they face.

Companies are already improving their knowledge of climate-related risks and opportunities and should now apply the TCFD framework for disclosing these to investors and other stakeholders.

For more information on how to get ready for mandatory climate-related financial disclosures in New Zealand please see the most recent PwC paper here.

How PwC can help?

Sustainability and Climate Change Team

PwC partners with organisations to provide a long-term holistic view and embed sustainability objectives across business strategies. Helping public and private organisations to stay ahead of the game while also supporting their licence to operate, PwC is focused on creating a sustainable and environmentally responsible country for all. With deep expertise, broad capabilities and a fully integrated service, PwC addresses challenges with the most sustainable, effective and efficient business solutions.

PwC's TCFD diagnostic tool will support you to understand how your existing public disclosures, processes and policies align with the TCFD recommendations and where priority areas to address might lie.

ANNABELL CHARTRES
Partner

PAMELA TINDALL
Director

Assurance Team

We provide assurance over climate-related qualitative and quantitative disclosures. Our role is to provide your stakeholders with trust and confidence over the reliability of the information you are communicating to them.

JONATHAN SKILTON
Partner

CHRIS USSHER
Partner

ANDREW SCOTT
Director

pwc.co.nz

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