Submission by

FinTechNZ

to the

External Reporting Board

on the

Climate-related Disclosures Governance and Risk Management Consultation Document

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FinTech NZ submission on Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures Governance and Risk Management consultation document

Summary

FinTechNZ thanks the External Reporting Board (XRB) for the opportunity to provide feedback on the Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures Governance and Risk Management consultation document.

We invite you to engage further with us. We can provide further detail and assistance on this and future submissions.

FinTechNZ supports the overall direction of XRB's Climate-related Disclosures Governance and Risk Management framework.

We have two key concerns that we believe the XRB can address in the development of this framework for Climate Reporting Entities (CREs) to report on:

- their impact on the environment *and* of climate-related risk to their business, and
- their financial activities relative to their environmental impacts and performance.

To address these concerns and mitigate a common disconnect apparent between CREs commitments, disclosed strategies and impacts on the ground, we recommend the XRB require CREs:

- to demonstrate how they are mitigating climate-related risk and embedding climate-related opportunities within all teams across their business, and
- provide more-thorough Task Force on Climate-related Disclosures (TCFD)-aligned disclosures that include reporting on:
  - Greenhouse Gas (GHG) emissions (including scope 3)
  - energy sources and use
  - water sources and use (and other significant impacts relating to the use of non-renewable resources, land use etc.), and
  - enable Users to easily link the climate-related opportunities, strategies, metrics and progress on targets back to the climate-related risks that are material to them, as indicated by 91 per cent of respondents in an Institutional Investor Study[1].

Our following comments and recommendations respond to the Questions and Specific Issues outlined in the consultation document.[2] Some of our recommendations anticipate shifting global financial climate-related disclosure requirements in the immediate future. Where there are no comments provided implies our agreement.

[1] Harvard Law School Forum on Corporate Governance, Institutional Investor Survey 2020, sourced online November 2021

[2] XRB, Climate-related Disclosures, Governance and Risk Management Consultation Document: Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1), sourced online October 2021

Background

The New Zealand Financial Innovation and Technology Association (FinTechNZ) community is committed to the prosperity, equity and sustainability of Aotearoa and all New Zealanders through financial technology innovation adoption, as well as our connection with, and impact on, the rest of the world.

As an established industry organisation, FinTechNZ brings together an inclusive community of more than 170 public and private sector members, including:

- financial services providers (i.e. ranges from large retail-focused banks to boutique asset managers)
- technology innovators (i.e. Microsoft, fintech startups)
- investor groups
- government policy-makers and regulators alike (i.e. COFR entities)
- financial educators
- international experts, and
- people who care about financial technology innovation and adoption.

FinTechNZ is engaged with the government on several fronts, including climate-related submissions, and welcomes the opportunity for continued engagement with the XRB and other bodies and the industry on climate matters.

As climate change is of growing importance to the finance industry, we are establishing a permanent FinTechNZ Sustainability Working Group (Working Group). This Working Group intends to harness both the accelerated adoption of digital technologies and sustainability in finance to support the exponential demand for FinTech solutions by the financial services industry, which is keen to:

- meet the growing investor demands for transparency on the impact of their portfolios
- decrease process cost barriers to sustainable finance and financing sustainability, and
- streamline their regulatory complaining.

FinTechNZ is part of the New Zealand Technology Industry Association (NZTech). NZTech is a member-funded, not-for-profit, non-governmental organisation representing 20 tech associations with over 1,600 members who collectively employ more than 100,000 New Zealanders: over 10 per cent of the New Zealand workforce.

Comments and recommendations

1 – Primary users have been identified as existing and potential investors, lenders and insurance underwriters. Do you think that all of these users should be included in the primary user category?

We recommend the primary user (User) category should include all users whose business is conducted in New Zealand and impacts the business and lives of individual New Zealanders.

We suggest the definition of Users be those who seek this information with a view of allocating capital.

In addition to those listed above, we anticipate the inclusion of retail investors and the government.

2a – Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.

While there are risks with adding a disclosure on specific board skills and competencies, we anticipate directors confidence in explaining their decisions on the climate-related risks and opportunities that impact various functions across their business.

We consider that good governance for managing climate-related risks and opportunities means having clear lines of accountability, processes and communicating progress.

We believe that sustainability should be woven into the fabric of the business.

We recommend that additional information be included, such as integrating metrics into the business model and the progress of metrics against stated targets. Ways this can be demonstrated is by disclosing:
- the extent of climate-related risks and climate-related opportunities considerations when the business undertakes other activities such as significant capital expenditure, acquisition or divestitures
- prioritisation and progress of deployed strategies, policies, and processes
- reporting of ESG business-related budgets and resources allocated across different business management levels and functions (rather than a budget centralised to one team), and
- the extent of ex-ante, ex-post and bonuses/remuneration/incentives paid relative to the progression toward each target.

3a – Do you think that the information provided under this section of the standard will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.

For ease of comparability by Users, we recommend either:
- CREs disclose data sources where they did not create the data, or
- the XRB provision suitable datasets.

We recommend the XRB include a requirement for CREs to disclose how they determine materiality within their organisation.

5a – Do you consider that the XRB should align with the TCFD and use the terms 'climate-related opportunities' and 'climate-related issues', or should we only refer to 'climate-related risks'?

We support the inclusion of both "climate-related risks" *and* "climate-related opportunities" throughout all four sections of the XRB's framework and in defined terms.

5b – Do you consider that the proposed definitions for these terms are accurate, sufficiently clear and well-explained? Do they need further detail or explanation? If so, should that detail be included in the defined terms or in the guidance?

We recommend the abridged definitions for "climate-related risks" and "physical risks" more closely align with the TCFD's definitions to provide greater visibility and consensus in understanding the more granular differences of climate-related risks.

We consider that including the potential financial and other impacts will enhance the requirement for CREs to act. By not including them, we are concerned that:
- CREs will create their interpretation and confuse Users, and
- creation of a selection bias will represent a barrier to adoption from not knowing and focussing on other activities.

We also note the TCFD definitions of contributors to transition risks (policy and legal risks, technology risks, market risks and reputation risks) are not in the defined terms. To ensure uniform understanding, we recommend inclusion in the guidance or the XRB point to a location where they are defined.

We also recommend the XRB consider the inclusion of the Climate Disclosures Standards Board's (CDSB) terms "natural capital" and "sources of environmental impact" so that CREs can consider and disclose impacts on, where relevant.[3]

6 – Do you have any other views on the defined terms as they are currently proposed?

In light of the International Sustainability Standards Board's (ISSB) current consolidation work, we recommend integrating their terminology and definitions, where relevant to the New Zealand context to enable Users to compare CREs disclosures with foreign investee companies disclosures.

Our recommendation is supported by the findings from the TCFD's consultation on Forward-looking Financial Metrics, which found three-quarters of respondents pointing to the need for a more standardised methodology.[4]

7 - The XRB is currently of the view that adoption provisions for some of the specific disclosures in NZ CS 1 will be required. However, the XRB does not believe it is necessary to provide any adoption provisions for entities in relation to the Governance and Risk Management disclosures. Do you agree with this view? Why or why not?

We agree that it is unnecessary to provide any adoption provisions for CREs concerning the Governance and Risk Management disclosures.

To simplify reporting and remain compliant, we suggest CREs initially disclose the three factors that the TCFD identified as the most likely to be affected by the transition and physical risks — scope 1 and 2 GHG emissions, energy sources and use, and water sources and use.

We are also cognisant that there is publicly available information from which CREs can establish their benchmarks and progress (i.e. fleet vehicle emissions). We anticipate immediate adoption of these metrics.

We are also aware that discussion is still taking place concerning the risk mitigation factors of natural capital and future costs to both CREs and the environment. In these instances, we anticipate adoption provisions are applied.

8 – The XRB currently intends NZ CS 1 to be concise and sector neutral, with sector-specific requirements to be contained in the guidance. Do you agree with this approach?

We agree with the approach that NZ CS 1 will be concise and sector neutral, with guidance that will contain sector-specific requirements.

We anticipate updates to the guidance to allow for:

- global shifts in climate disclosure requirements
- the introduction of new methodologies, standards, tools, and data that makes compliance easier
- more information around the reporting of broader elements of natural capital that comes into play, or
- the decrease in the legislated threshold, which we anticipate will increase the number of CREs publishing environmental data and Users providing reporting. (The European Union did this last April.)

Despite the ISSB's current consolidation work, we note the differing usability functions of key climate standards organisations. To support approximately 60% of CREs that are likely to be new to this type of disclosure,[5] we suggest the XRB elicit highlights from each, respective to the stage of reporting, as follows:

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[3] CDSB, CDSB Framework for reporting environmental and climate change information v 2.2, p8

[4] TCFD, TCFD's Forward-looking Financial Metrics Consultation, p4, March 2021

[5] McGuinness Institute, Working Paper 2021/06 – Reviewing TCFD information in 2017–2020 Annual Reports of NZSX-listed companies, June 2021

- TCFD provides framing of climate-related information as well as principles
- CDP can help CREs understand how to collect, structure, and report their data, and
- CDBS can help CREs understand how to integrate material information into their reporting.

Issues under consideration

10.1 Scenarios

We recommend the inclusion of a requirement for scenario analysis to be completed and regularly reviewed to enable:

- further impetus for Users to consider CREs resilience to climate-related risks, and
- CREs to benefit from increased data analysis informing their decision-making on financial and operating risks, with oversight from the board, and support their prioritisation and implementation of strategies, metrics and targets.

Modelling different scenarios supports a scientific approach to setting and achieving targets. Our recommendation is based on findings from TCFD's consultation on Forward-looking Financial Metrics[6].

We appreciate that the availability of quality data prohibits this to be done immediately (although there are already some financial institutes doing this in the UK). For optimal reporting, this does not inhibit the completion of qualitative assessments in the first instance.

For comparability, we support the XRB's inclusion of setting sector-specific scenario 'standards'. At a minimum, we recommend the XRB consider the inclusion of key terms in the defined terms section and aspects of the methodology that are crucial to scenario analysis in the guidance for uniformed understanding.

We anticipate disclosures from the scenario analysis to sit across the reporting of all four TCFD pillars.

10.2 GHG emissions

We support the disclosure of all Scope 1, 2 and 3 emissions to identify, report and decrease GHG emissions. We specifically support the disclosure of end-of-life treatment of sold products, and ideally, revenue generated from low carbon products.

However, we anticipate the resulting climate-related opportunities, strategies, targets and progress metrics which have a material impact on the viability and value of the reporting CRE are the focal point for implementation.

For the clarity and ease of comparability of those reading Users disclosures, we also suggest communicating GHG-related metrics and targets in metric tonnes of CO2e, as a proportion of their shareholding in the CRE. Currently, intensity metrics that are subject to revenue or market value weightings belittle the extent of emissions. Market value fluctuations also impact stated emissions levels.

10.3 Assurance

While not for immediate consideration, we ask the XRB to consider the safe (ethical and transparent) use of Artificial Intelligence and other automated tools to develop and present insights in its roadmap.

[6] TCFD, TCFD's Forward-looking Financial Metrics Consultation, p4, March 2021

We also anticipate that these assurances are also applied to Users in the construction and distribution of sustainable/responsible/green financial products and communicated with their investors and stakeholders throughout the lives of the respective products.

10.4 Presentation requirements

We support the ISSB's presentation requirements. We anticipate that their standards will be arranged by both themes, starting with climate, and industry-specific disclosures. Following the arrangement of this layout, in the risk management and strategy, targets and metrics sections are likely to support ease of comparability for Users.

We also support your thinking in cases where CREs wish to integrate their disclosures throughout their annual report. Providing a table that cross-references the required disclosures and their location in the annual report or other documentation enables ease of locating information. We anticipate ease of implementation by CREs given only seven out of 27 CREs had dedicated TCFD-aligned sections to climate change in their 2020 annual reports[7].

10.5 Materiality

We support the XRB's stated definition of materiality, where there is close alignment to the definitions provided by the ISSB, or similar organisations such as the TCFD, CDSB. We recommend that the term materiality be included in the defined terms to ensure clarity and consistency.

We recommend materiality be considered and applied where:
- there are connections between CREs impact on the environment resulting in climate change, and
- degrading or depleting natural resources is likely to affect the CREs ability to operate its business model and execute its strategy.

We anticipate disclosure to showcase how climate-related materiality assessments are conducted, how often, over what time frames and the proportionality of the issue to the business. This provides one of the links between climate-related risks and climate-related opportunities, strategies, targets and metrics.

Conclusion

Thank you for the opportunity to provide feedback on the consultation document. We are happy to engage further with you to discuss our submission in detail and provide further assistance.

If you have any further queries, please do not hesitate to contact me.

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[7] McGuinness Institute, Working Paper 2021/06 – Reviewing TCFD information in 2017–2020 Annual Reports of NZSX-listed companies, June 2021