

At a glance

Climate-related Disclosures

Aotearoa New Zealand Climate Standard 1

NZ CS 1

A decorative graphic consisting of four slanted rectangular bars in shades of green, grey, blue, and orange.

October 2021



The *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill* establishes a mandatory climate-related disclosure reporting regime for Aotearoa New Zealand. Under this regime, climate reporting entities will be required to produce climate statements according to disclosure requirements in External Reporting Board (XRB) standards.

Mandatory climate-related disclosures are a significant tool in the arsenal to focus entity and investor attention on the risks and opportunities arising from climate change. They enable more informed decision making through the provision of clear, relevant, comparable, comprehensive, and high-quality information.

The climate-related disclosure framework

The Bill enables the XRB to create a climate-related disclosure framework. Our intention is that this framework will comprise of at least two standards and an authoritative notice which will be mandatory, plus accompanying non-mandatory guidance.

This document focuses on the proposed **Governance and Risk Management** sections of NZ CS 1.

Our next consultation in **March 2022**, will focus on the proposed **Strategy, and Metrics and Targets**, sections.

Who is required to report and by when?



Large listed issuers with a market capitalisation exceeding \$60 million



Large financial entities, including banks, insurers and managers of investment schemes with total assets exceeding \$1 billion

The reporting regime takes effect for accounting periods that start on or after the date the XRB issues the first climate standard. Currently we are anticipating issuing a standard by December 2022.

- 20 October 2021**
This consultation provides proposed sections of NZ CS 1 on Governance and Risk Management for a four-week feedback period, closing 22 November 2021.
- March 2022**
This consultation provides proposed sections of NZ CS 1 on Strategy, and Metrics and Targets, for a four-week feedback period.
- July 2022**
This consultation provides the formal exposure draft of NZ CS 1, and accompanying documents such as the draft adoption standard, for a three-month feedback period.
- December 2022**
The XRB expects to issue NZ CS 1 and accompanying documents.



Proposed section: Governance

Disclosure objective(s)

1. The objective of these disclosures is to enable primary users to understand both the role an entity's *board* plays in overseeing *climate-related issues*¹, and the role *management* plays in assessing and managing those issues. Such information supports evaluations by primary users of whether climate-related issues receive appropriate board and management attention.

Explanatory paragraph

2. An entity must consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. If the disclosures provided, applying paragraphs 3–5, are not sufficient to meet the objective in paragraph 1, an entity must disclose additional information necessary to meet that objective. However, an entity must ensure that relevant information is not obscured by the inclusion of insignificant detail.

Disclosures

3. To achieve the disclosure objective in paragraph 1, an entity must disclose the following information:
 - (a) a description of the board's oversight of *climate-related risks and climate-related opportunities* (see paragraph 4); and
 - (b) a description of management's role in assessing and managing climate-related risks and climate-related opportunities (see paragraph 5).
4. An entity must include the following information when describing the board's oversight of climate-related issues (see paragraph 3(a)):
 - (a) processes and frequency by which the board and/or board committees are informed about climate-related issues;
 - (b) how the board sets and monitors progress against goals and targets for addressing climate-related issues;
 - (c) how the board holds management accountable for the implementation of climate-related policies, strategies, and targets, including whether and how related performance metrics are incorporated into remuneration policies;
 - (d) whether and how the board accesses expertise on climate-related issues, either from its own internal capacity and/or from external sources in order to provide appropriate oversight on climate-related issues; and
 - (e) whether and if so, how, climate-related issues are incorporated into governance processes and decision-making.
5. An entity must include the following information when describing management's role in assessing and managing climate-related issues (see paragraph 3(b)):
 - (a) whether the board has assigned climate-related responsibilities to management-level positions or management committees; and, if so, whether such management positions or committees report to the board or a committee of the board;
 - (b) a description of the related organisational structure(s) showing where these positions and committees lie; and
 - (c) processes by which management is informed about, makes decisions on, and monitors, climate-related issues.

1. Climate-related risks and climate-related opportunities are collectively referred to in NZ CS 1 as climate-related issues.



Proposed section: Risk Management

Disclosure objective(s)

1. The objective of these disclosures is to enable primary users to understand how an entity's climate-related risks are identified, assessed and managed, and how those processes are integrated in existing *risk management* processes. Together with the Strategy disclosures², such information supports evaluations by primary users of the entity's overall *risk profile* and the quality and robustness of the entity's risk management activities.

Explanatory paragraph

2. An entity must consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. If the disclosures provided, applying paragraphs 3–5, are not sufficient to meet the objective in paragraph 1, an entity must disclose additional information necessary to meet that objective. However, an entity must ensure that relevant information is not obscured by the inclusion of insignificant detail.

Disclosures

3. To achieve the disclosure objective in paragraph 1, an entity must disclose the following information for both *transition risks* and *physical risks*:
 - (a) a description of its processes for identifying and assessing climate-related risks (see paragraph 4);
 - (b) a description of its processes for managing climate-related risks (see paragraph 5); and
 - (c) a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management.
4. An entity must include the following information when describing its processes for identifying and assessing climate-related risks (see paragraph 3(a)):
 - (a) the tools and methods used to identify, and to assess the scope, size, and impact of the climate-related risk;
 - (b) the short-, medium-, and long-term time horizons considered, including specifying the duration of each of these time horizons;
 - (c) the *value chain* stage(s) covered; and
 - (d) the frequency of assessment.
5. An entity must include the following information when describing its processes for managing climate-related risks (see paragraph 3(b)):
 - (a) how it determines the relative significance of identified climate-related risks;
 - (b) how it determines the relative significance of climate-related risks in relation to other risks; and
 - (c) how it makes decisions to mitigate, transfer, accept, or control those climate-related risks.

The Risk Management disclosures are about an entity's processes for identifying, assessing, and managing climate-related risks. The disclosure of the climate-related risks and climate-related opportunities an entity has identified is in the Strategy section.

2. The proposed Strategy section of NZ CS 1 will be provided in March 2022.



Key questions



Do you think the proposed Governance and Risk Management sections of NZ CS 1 meet primary user needs?



Do you think that the information provided under these sections 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.



Do you consider that these sections of the standard are clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

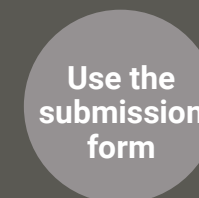
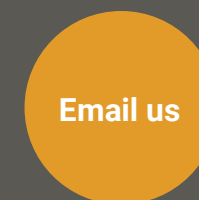


Do you consider that these sections of the standard are adequately comprehensive and achieve the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?

Additional questions are included in the consultation document.

What are your views?

Feedback can be provided formally or informally. Click on any of the buttons below:



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