

## **Mindful Money submission**

### **Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures**

#### **Governance and Risk Management consultation**

Mindful Money is a charity that promotes enhanced financial flows that contribute to well-being, sustainability, emissions reductions and enhanced resilience; and the inclusion of social, environmental and climate considerations into financial decision-making. Mindful Money provides transparency of financial information; educates and empowers financial users; contributes to higher standards for providers; and advocates for a supportive legal and policy framework.

Mindful Money strongly supports the introduction of comprehensive and fully transparent climate disclosure. We are grateful for the opportunity to provide input in this consultation, and we look forward to working with XRB and others for ensure climate disclosure creates real benefits for users of financial information and for a rapid and just transition to a stable climate.

### **Summary of Recommendations**

1. There is a fundamental gap in the objectives for this governance standard. Currently the objective in section 1 is: *“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, and the role management plays in assessing and managing those issues.”*

This is out of step with emerging approaches internationally. For example, the EU’s Guidance on corporate disclosure of climate related information states that it is: *“Guidance for companies on how to report on the impacts of their business on the climate and on the impacts of climate change on their business.”*

**The objectives for this governance standard should be changed to reflect the impact of the reporting entity on the climate, not just the impact of the climate on the reporting entity.**

2. The governance standards focus on the accountability of management to the Board, but do not include mechanisms for accountability of the Board to external stakeholders.

**The Disclosure section of the Governance standard should include mechanisms that enable stakeholders to hold the Board to account for climate impacts, risks and opportunities.**

3. The listing of primary users is too narrowly drawn. The main rationale for mandating climate-related disclosures is to redress past practices whereby the financial sector has ignored climate risks, opportunities and impacts. These are of vital interest not only to providers of financial capital but a range of stakeholders in society.

**Primary users are existing and potential investors, lenders, insurance underwriters and those with a mandate to analyse and communicate information on climate risks, opportunities and performance.**

4. There is no corresponding section on Climate Opportunities as there is on Climate Risk. This creates an imbalance for governance mechanisms, strategy and Metrics & Targets. There is no specification for disclosure on Climate Opportunities as there is for Climate Risk. Therefore, there should be a parallel section to clearly define a similar scope of information for Climate Opportunities as for Climate Risk.

**The Climate Risk section should be re-named Climate Risk and Opportunities, with a similar level of detail for Climate Opportunities included.**

## Response to Questions

We have responded to the questions posed for the consultations.

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?*

These users identified should be included but so should others. It is clear that there is a broader public purpose for the Climate Disclosure Bill than only the provision of information to financial users about the financial aspects of climate risk. The definition of primary user is too narrowly drawn and excludes those who have a crucial role in analysing, interpreting and communicating the information for a broader group of stakeholders.

A narrow definition of primary users could lead to excluding information that does not fit with the focus of the financial sector. This has been the cases for many years, as issues of climate change, social and environmental issues have not been considered relevant for financial disclosure. The purpose for this Bill should be to open up the information to users who want to understand the links between financial risks and outcomes for the climate.

There are others who have a legitimate and vital interest in the disclosure. For example, the definition of primary users would not include Mindful Money, even though the disclosures are crucial to our role in providing accessible and comparative information to interested stakeholders. Others with a role of information provision should also be defined as primary users of the information, including financial analysts, media, climate researchers, policy-makers and civil society.

**Recommendation:** Primary users are existing and potential investors, lenders, insurance underwriters *and those with a mandate to analyse and communicate information on climate risks, opportunities and performance.*

2) Do you think the proposed Governance section of NZ CS 1 meets primary user needs?

As above, the definition of primary users is drawn too narrowly, and it is related to a narrow definition for the scope of governance. The governance standards need to include climate impacts *by the entity* rather than only climate risks and climate opportunities *for the entity*. This narrow interpretation is likely to mean the New Zealand standard is out of step with emerging international thinking.

For example, the EU's disclosure guidance explicitly aims to provide: "Guidance for companies on how to report on the impacts of their business on the climate and on the impacts of climate change

on their business.” [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information_en)

This lack of a broader governance responsibility leads to another crucial failing of the governance standard. Most of the provisions in paragraphs 3-5 focus on the Board’s role in holding management to account. This focus on internal governance is not matched by a similar focus on external governance. The role of the disclosure related to governance should also be to enable external stakeholders to hold the Board to account. This is lacking. For example, such mechanisms could include a requirement for a specific item for discussion at AGMs.

**Recommendation:** The Disclosure Objective should be replaced by the following: *“The objective of these disclosures is to understand the role management plays in assessing and managing climate impacts, risks and opportunities, the role of the Board in providing oversight, and the ways that the Board can be held accountable on climate issues.”*

Specific governance and accountability mechanisms should be included in the Disclosure section to include:

A report on climate strategies, plans, actions and impacts at AGMs

3) Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?

As stated above, primary users should be defined more broadly.

4) The XRB has primarily drawn from the TCFD’s definitions for its defined terms. Do you agree that we should align closely with the TCFD’s definitions?

Adjustments are required. See below.

5) The XRB is particularly interested in feedback on the following defined terms as they are currently proposed: ‘climate-related risk’, ‘climate-related opportunities’, ‘climate-related issues’, ‘physical risk’, and ‘transition risk’.

**Recommendation:**

*Climate related issues should be defined as climate-related risk, climate-related opportunities and climate impacts.*

A new term should also be defined as follows:

*Climate impacts should be defined as the impact of the entity on the climate through direct emissions of greenhouse gases or indirect influence through mechanisms such as value chains, customer relationships, investments, loans or physical impacts.*

*Separate definitions for climate risks and climate opportunities should be retained, otherwise the common meaning of “risks” could lead to climate-related opportunities being overlooked.*

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

N/A

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?

Adoption provisions may be required as practice evolves, particularly for Metrics & Targets . For example, there is currently a lack of data that would enable the incorporation of Scope 3 emissions for crucial sectors, such as Coal, Oil and Gas extraction.

There is a lack of experience in the governance and risk management aspects that suggest it would be prudent to provide for adoption provisions for these sections as well.

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

Yes

## Section 10: Issues under Consideration

**Scenarios:** In order to avoid 200 reporting entities trying to track down the same basic data in order to construct scenarios, the government needs to make an authorised and authoritative base of information available. This does not mean that entities cannot extend or adapt the information to their own circumstances, but it provides a common baseline for ease of use and comparability.

**GHG Emissions:** Scope 3 emissions are crucial for the key sectors that have the highest impact on emissions, including fossil fuel production. Guidance should be provided so that Scope 3 calculations are not required where the effect on emissions is likely to be small.

**Assurance:** In order for disclosure to have credibility, the standards should specify the level of assurance over GHG emissions.

**Presentation:** We agree with the suggestion that integration of climate information is required throughout the annual report, but that a common set of measures is required in a table or other form that facilitates comparability.

**Materiality:** We agree with the proposed approach.

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