



22 November 2021

External Reporting Board

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## **SUBMISSION ON THE AOTEAROA NEW ZEALAND CLIMATE STANDARD 1: CLIMATE RELATED DISCLOSURES GOVERNANCE AND RISK MANAGEMENT CONSULTATION DOCUMENT**

1. Mercury NZ Limited (*Mercury*) welcomes the opportunity to comment on the Governance and Risk Management Consultation Document for the Aotearoa New Zealand Climate Standard 1 (*NZ CS 1 / the Standard*).
2. Overall, Mercury supports the proposed disclosure requirements set out in the Standard, including the mandatory criteria identified for Governance and Risk Management disclosures. In particular:
  - Mercury supports the alignment with Task Force on Climate-related Financial Disclosures (*TCFD*) recommendations. We have been voluntarily reporting against those recommendations for three years. Alignment with TCFD will ensure consistency within reporting in New Zealand and overseas, and will assist entities which have already been reporting to transition to the new mandatory reporting regime.
  - Entities should be able to make the required disclosures against NZ CS 1 wherever is most appropriate for their business (ie in their annual report, as the legislation suggests, or in a corporate governance statement linked through to the annual report) and so that these can be easily aligned with existing disclosures, so long as the disclosures are clearly highlighted for primary users.
  - Mercury welcomes the opportunity to assist in providing guidance for the energy sector by working with XRB in 2022.

### **MERCURY AND CLIMATE-RELATED REPORTING**

3. Mercury is a generator and national retailer of electricity in New Zealand. Mercury generates all of its electricity from 100% renewable energy sources (hydro, geothermal, and wind). Mercury is listed on the New Zealand Stock Exchange and the Australian Stock Exchange with foreign exempt listed status.
4. As a 100% renewable electricity generator, we are at the forefront of New Zealand's transition to a low emissions economy. We are keenly aware of the challenges and opportunities

presented by the drive to decarbonise New Zealand’s energy system. We have a key role to play in that transition.

- 2021 was the third year that Mercury has reported on climate-related disclosures in accordance with the recommendations of the TCFD (Our 2021 Annual Report can be accessed [here](#)). We see climate-related disclosures as a major opportunity to support and structure thinking within our organisation on climate related risks and opportunities. Consequently, we welcome the entry into force of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (*CRD Act*). We have been able to provide steadily more comprehensive information each year, and in FY21 we completed our first scenario analysis consistent with our FY20 Climate Change Management Plan. We are currently working to deepen our understanding of the physical climate risks to our generation assets and aim to incorporate climate change into our existing extreme event modelling.

### MERCURY’S SUBMISSION POINTS

- As noted above, there are many aspects of the proposed disclosures in the Consultation Document that Mercury considers to be appropriate and strongly supports. We make detailed submissions in response to the specific questions raised in the Consultation Document in **Table One** below.
- Mercury supports the use of objectives and disclosures which are aligned with the TCFD recommendations. Mercury also supports the specificity of the mandatory disclosures proposed. This detail gives added direction and clarity for reporting entities, which will assist in light of the fact that this is a developing area and an aspect of reporting which is relatively new.
- Mercury supports an approach to reporting that preserves maximum flexibility for users to disclose climate related risks in a way that aligns with their existing business requirements and reporting obligations. For example, as a listed issuer, Mercury is required to make market disclosures to comply with the Listing Rules and related legislation. Mercury would appreciate an acknowledgment in the “Presentation” section of the Standard that disclosures may be made via these existing channels where appropriate, so long as material is appropriately cross-referenced or linked within entities’ annual climate statements.
- In this regard, Mercury considers that it is important that climate risk is not seen as a standalone or unique type of financial risk that requires separate and distinct treatment. Were the Standard to promote such a distinction it would be inconsistent with the underlying drivers of the TCFD recommendations. The mainstream consideration and adoption of climate risks is best served by enabling reporting entities to manage and report on climate risk in a manner that is consistent with their existing risk reporting.

**Table One: Mercury’s response to XRB consultation questions**

Question	Mercury comment
<p><b>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?</b></p>	<p>Yes. Mercury supports the definition of “primary users” which XRB has proposed.</p> <p>There is a potentially wide group of interested parties who will likely be paying attention to climate-related disclosures, but that group is not allocating capital or making other similar financial decisions on the basis of the disclosures. The Standard is right to draw the line where it has, so that reporting entities are clear as to who the audience and primary users of the statements are, and who the reporting should primarily be directed at.</p>



<p><b>2) Do you think the proposed Governance section of NZ CS 1 meets primary user needs?</b></p>	<p>We consider the required disclosures are generally appropriate, and support the close alignment with the TCFD recommendations.</p> <p><b>Paragraph 4(a):</b> We support the approach taken to require descriptions of governance systems and processes to allow entities to provide this information in the way that is most helpful for primary users. Seeking disclosures in an open manner, as opposed to specifying substantive mandatory requirements, allows entities to disclose all relevant and material information without inadvertently creating a checklist or unintentionally rigid standard.</p> <p>For example, with respect to disclosure 5(a), Mercury supports the open framing of this disclosure (“<i>whether the board has assigned climate-related responsibility 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</i>”). Mercury would not support the imposition of substantive requirements (such as a requirement to have a climate sub-committee at board level). Having worked through its own disclosures for three years, Mercury is confident that a principles based disclosure regime will drive the best quality disclosures.</p> <p>Mercury suggests that disclosure 5(a) could be improved as follows:</p> <p style="padding-left: 40px;">“whether the board has assigned climate-related responsibility to management-level positions or management committees; and if so, <del>whether such the process by which</del> management <del>positions or committees engages with report to</del> the board or a committee of the board;”</p> <p>The above changes both provide for flexibility and ensure that dialogue with the Board is clearly seen as two-way engagement, rather than mere reporting from management to the Board.</p> <p><b>Paragraph 4(c):</b> Mercury supports the requirement to disclose whether and how climate-related performance metrics are incorporated into remuneration policies, so long as entities retain flexibility on the actual methods used to incorporate performance into remuneration. Mercury already reports on its Board and management remuneration, and determines a portion of total remuneration for its executive management team based on performance against both financial and non-financial targets (including sustainability based targets).</p> <p><b>Paragraph 4(d):</b> The proposed disclosure 4(d) (how the board accesses expertise on climate-related issues) is not contained in the TCFD recommendations nor guidance, but has been proposed for incorporation on the basis that it is contained in EU guidelines. Mercury supports this content but suggests it is better placed in guidance documents, rather than being included as a mandatory disclosure at this time.</p>
<p><b>3) Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?</b></p>	<p>Mercury also supports the proposed content and structure of the Risk Management section.</p> <p><b>Paragraph 3(a):</b> It is important for the Standard to produce helpful reporting now, but also to contain the flexibility to recognise and allow for incorporation of improved information and data that is currently unavailable. To that end, Mercury supports the proposed language requiring entities to state the “processes” for identifying and assessing</p>



	<p>climate-related risks, noting that as all entities' processes and inputs improve this information will become more granular.</p> <p>For example, Mercury's scenario modelling to date has revealed that currently the available regional level datasets are too high level to provide robust and detailed information required for long-term investment decisions for hydro assets. In light of this, for our 2021 Annual Report we have stated that we are continuing to investigate scenario modelling for climate change adaptation, and that the level of information available is currently presenting challenges. We expect that in future reporting years, once more data is available, we will be able to make more detailed statements.</p> <p><b>Paragraph 4 (b):</b> Mercury appreciates that the XRB has largely moved paragraphs 4(a) – (d) from the Strategy section under TCFD, to the Risk Management section in the Standard. This makes sense in order to articulate the risk management process. However, Mercury considers it is important not to lose the focus on risks <i>and opportunities</i> in reporting. Therefore, if the disclosure of various time horizons moves into this section, Mercury would expect to see the same reference to identification of risks <i>and opportunities</i> across the various time horizons in the Strategy section of the Standard. Mercury also supports keeping the requirement to describe specific climate-related issues in the Strategy section – which it appears is the XRB's intention, as that content has not been picked up in the Risk Management section proposed.</p> <p><b>Paragraph 4(d):</b> We note that the proposed disclosure of the frequency of risk assessment is not contained in the TCFD recommendations nor guidance, but has been proposed for incorporation on the basis that it is contained in the CDP 2021 questionnaire. Mercury supports this content in principle but suggests it is better placed in guidance documents, rather than being included as a mandatory disclosure. Furthermore, Mercury does not consider that reporting on the frequency of risk assessment is necessarily going to be most useful for primary users. What matters is the quality of the risk assessment process, and there is likely to be a variety of ways to achieve quality risk assessment which are not necessarily connected to the regularity of that assessment.</p> <p>Moreover, it is unlikely that there will be a one size fits all approach to risk assessment frequency. The frequency of reassessment is likely to be tailored to the types of risks and specific risk milestones related to those risk (for example regulatory reform time horizons). Mandatory disclosures regarding frequency of risk assessment could result in overly complex disclosures that obscure the key point – being the need for disclosures to confirm an adequate process for ongoing, cogent risk assessment.</p>
<p><b>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?</b></p>	<p>Mercury agrees that alignment with the TCFD terms is appropriate. These terms are well-understood already and broadly applied in climate risk reporting and the Standard's alignment will maintain clarity and comparability, rather than developing bespoke definitions.</p>



<p><b>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’.</b></p>	<p>It is important that the Standard distinguishes between and supports disclosures in relation to not only climate-related risks but also climate-related opportunities. It is relevant for entities to report on how both of those aspects are materially relevant to their operations in climate statements. The collective definition of “climate-related issues” is a useful way to encompass both risks and opportunities.</p>
<p><b>6) Do you have any other views on the defined terms as they are currently proposed?</b></p>	<p>Nil.</p>
<p><b>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?</b></p>	<p>Mercury agrees there is no need for adoption provisions in relation to Governance or Risk Management disclosures.</p> <p>We agree that these aspects of the proposed Standard are the more straightforward aspects to report against, because they are descriptive and process-focused. They do not require entities to gather new or inaccessible data or information, nor do Governance or Risk Management disclosures require scenario analysis (acknowledging that the Risk Management disclosures might involve describing whether an entity uses scenarios analysis, but that the actual description of the scenarios analysis is required to be disclosed via the Strategy disclosures).</p> <p>We agree that adoption provisions are likely to be appropriate for the Strategy and Metrics &amp; Target disclosures of NZ CS 1.</p>
<p><b>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?</b></p>	<p>Yes. Mercury supports the Standard being sector neutral. But we do consider that sector-specific guidance would be valuable, particularly for the energy sector.</p> <p>Mercury would welcome the opportunity to assist or provide input into the development of such guidance. The TCFD already provides sector-specific guidance for the energy sector in its 2021 Implementing Guidance,<sup>1</sup> and specific metrics are contained within the recently-published IFRS Foundation prototype standard.<sup>2</sup> Mercury would be interested in discussign how these materials would apply in the New Zealand context.</p> <p>There may also be aspects of the general disclosures which can usefully be elaborated on to better tailor for specific sectors. For example, the frequency of reporting to the board on climate-related issues may differ for different types of risk or different sectors.</p>

<sup>1</sup> Task Force on Climate-related Financial Disclosures *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* October 2021, at p63. [[https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf)].

<sup>2</sup> IFRS Technical Readiness Working Group recommendations for consideration by the International Sustainability Standards Board for climate-related disclosures standard (Climate-related Disclosures Prototype) 3 November 2021, p28 and p34. [<https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf>]



10. Mercury looks forward to participating in future consultation on the development of the NZ CS 1 and associated guidance. We would welcome the opportunity to provide input into guidance for the energy sector.

A rectangular box containing a handwritten signature in black ink on a light grey background. The signature is cursive and appears to read 'Lucie Drummond'.

**Lucie Drummond**  
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