Submission on Aotearoa New Zealand Climate Standard 1

Submission by AMP Wealth Management New Zealand Limited on the XRB's Climate- related Disclosures Governance and Risk Management Consultation Document – NZ CS 1

22 November 2021

This submission document contains the feedback from AMP Wealth Management New Zealand Limited (**AMP WMNZ**) on NZ CS 1, as released by the XRB for consultation on 20 October 2021 (**the Consultation Document**). This submission has three parts:

1. Introductory remarks.
2. AMP WMNZ's detailed responses to the specific questions raised in the Consultation Document.
3. Other comments and feedback from AMP WMNZ relating to specific sections of the Consultation Document and relating to the Climate-related Disclosures regime more generally.

AMP WMNZ requests the opportunity to discuss and clarify the intended operation of NZ CS 1 in the context of investment managers, and AMP WMNZ's business specifically, and would be available to meet with XRB for this purpose as soon as possible.

Part 1: Introductory remarks

AMP WMNZ is caught by the Climate-related Disclosures regime by virtue of being a "Large Manager" Climate Reporting Entity (**CRE**) of a number of FMCA registered schemes, including KiwiSaver and other investment funds, with over $1 billion in total assets under management across its schemes.

For Large Managers such as AMP WMNZ, the legislation requires Climate Statements to be prepared only in respect of its registered schemes (at either a separate fund or scheme level). Our interpretation of that requirement, along with our understanding of the TCFD recommendations[1] is that for (unlisted) Large Managers, the focus is on *investment portfolio level* governance, risks and issues. In other words, disclosures at the corporate entity level are not in scope for Large Manager CREs. This is a key area that we would like clarified, as it runs throughout NZ CS 1.

Another key area that is unique to investment managers, is ensuring that there is an ability to combine or consolidate common content across the various climate statements. This is important from a practical point of view because it would allow production of streamlined information that is easy for the primary users to access, understand and compare.

For AMP WMNZ, based on what we have seen so far, we expect that the Governance, Risk Management and Strategy content is likely to be common across all Climate Statements we produce for a particular balance date, while the Metrics and Targets could vary. If we are required to produce separate Climate Statements per scheme/separate fund, this could be **up to 36 Climate Statements for one balance date** (and AMP WMNZ also has other registered schemes with different balance dates).

We have set out in Part 3 below further detailed explanation about the FMCA requirements for schemes, separate funds and the need for further consolidation of scheme level Climate Statements for Large Managers (as well as the existing ability to combine separate fund level Climate Statements). As you will see, that area of the FMCA is complex, and we request a meeting to discuss it with you in more detail.

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1 Refer for example to the TCFD *2021 Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* (which replaced the 2017 implementation document) page 44, where it states that "*where an asset manager is a public company, it has two distinct audiences for its climate related financial disclosures. The first audience is its shareholders, who need to understand enterprise-level risks and opportunities and how these are managed. The second is its clients, for whom product-, investment strategy-, or client-specific disclosures are more relevant*." For non-public company asset managers, it is the second audience that is relevant and product, investment strategy, client-specific disclosures are relevant (i.e. investment portfolio rather than corporate disclosures).

Part 2: Question Responses

Section	Question		AMP WMNZ Response
Section 2.1 – Who is interested in climate-related disclosures?	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 agree these categories seem suitable, on the basis that one or more category of primary users will be relevant to each CRE. We believe it would be beneficial to clarify here that not all categories of primary user will be relevant to each CRE. For example, insurance underwriters will not be relevant primary users of the Climate Statements of a manager of a registered investment scheme. We set out below, in the response to question 2(b) suggested changes to clarify this point, along with other suggested changes.
Section 7.2 – Proposed Section: Governance	2	Do you think the proposed Governance section of NZ CS 1 meets primary user needs?	
	2(a)	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.	We believe the Governance section needs to be clearer that it is referring to primary users that are **relevant** to a CRE's **in scope** business. The scope point has two aspects: • being clear that, for investment managers, the scope is limited to governance activities relating the governance of the registered schemes (this relates back to our introductory remark about the focus needing to clearly be on investment portfolio level disclosures); and • ensuring that business activities outside of managed investment schemes (which some investment managers, including AMPWMNZ, do have within their overall business[2]) are not unintentionally captured by disclosure requirements. Additionally, investment managers structure their businesses in many different ways, for example outsourcing parts of their activities and/or utilising services provided by related entities (who are not themselves a reporting entity for these purposes). If the disclosures extend beyond the scheme into the corporate level, then there are likely to be issues with comparability across reporting entities.
	2(b)	Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?	The Standard should be clarified so that it applies to Large Managers *in respect of* the managed investment schemes. Currently, some of the language does not fit neatly with the requirement for Large Managers to provide scheme/separate fund level disclosures (rather than entity level disclosures required of all other CREs). Also, the reference to the "entity's board" and many of the definitions do not easily accommodate investment portfolio governance of risks and issues. Managed investment schemes (Large Managers) are generally governed by an Investment Committee, not the Large Manager itself (usually a corporate entity). For example, AMP WMNZ is a CRE. It is the manager of the AMP KiwiSaver Scheme (and other registered schemes). However, neither AMP WMNZ itself, nor its board, governs the AMP KiwiSaver Scheme. Instead, the Investment Committee, which is a committee of the board of AMP WMNZ, makes key governance decisions about the AMP KiwiSaver Scheme, for example the investment philosophy and asset allocations contained in the SIPO. CS 1 needs to clarify whether the governance disclosures relate to the Investment Committee of the scheme (or separate fund, as

2 The wider AMP NZ business distributes general insurance (underwritten by a third party), is a financial advice provider and offers a DIMS service.

			the case may be), or if the disclosures need to relate to the Manager of the scheme (i.e. the CRE, AMP WMNZ). The two are distinct and perform different roles. We suggest that the "board" definition be expanded to accommodate other appropriate governing bodies, and to specifically refer to an Investment Committee of the Large Manager. Also, the Standard does not yet incorporate the concept of "materiality". We note the comments in section 10.5 and elsewhere in the consultation document that XRB is currently developing a definition of 'material' and related requirements for the application of materiality to climate-related disclosures. AMP WMNZ considers this to be an important overlay in helping determine what should be disclosed. Proposed changes to disclosure objective(s): Considering the above issues, we propose the following marked up changes be made to the disclosure objective(s): The objective of these disclosures is to enable ***the*** primary users ***that are relevant to a climate reporting entity (or relevant to the registered schemes of a climate reporting entity that is a "Large Manager" as defined in FMCA)*** 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. Such information supports evaluations by primary users of whether climate-related issues receive appropriate ***attention of the governing body*** ~~board~~ and management ~~attention~~."
	2(c)	Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?	Per the explanatory paragraph in NZ CS 1, and the overall approach set out in section 5.2 of the Consultation Document, which mentions that NZ CS 1 is intended to be short and succinct, focusing more on high level rather than being overly prescriptive, our view is that paragraphs 4 and 5 of the proposed disclosures are overly prescriptive with the inclusion of the words "**must include**" in both paragraphs. This deviates from the original TCFD wording which was "**should consider**". Our view is that this is a material deviation and may narrow reporting entities' focus to the listed items, rather than considering what information is most useful to meet the overall objectives, including the needs of relevant primary users. Our preference for the phrasing would be ***"must consider and disclose as relevant"*** in both places, as this better aligns with the overall approach. In addition, our view is that paragraphs 4(c) (how the board holds management accountable) and 4(d) (whether and how the board accesses expertise) are a level of detail that goes beyond what is needed to meet the needs of primary users. As the explanatory paragraph provides, should additional information be needed then this must be included in any event. It is not clear why these additional requirements, which are over and above TCFD recommendations, have been included. In respect of paragraph 4(c), in smaller organisations there may also be privacy implications of including this information as individuals (and their remuneration structure) may be easily identifiable. We propose the deletion of paragraphs 4(c) and 4(d) of the Standard. We agree with the approach of not going so far as requiring disclosure of specific climate -related skills and competencies of individual board members.
Section 7.3 – Proposed Section: Risk Management	3	Do you think the proposed Risk Management section of NZ CS 1 meets the primary user needs?	
	3(a)	Do you think that the information provided under this section of the	Our view is that the Risk Management section generally meets primary user needs. However, we have similar feedback on the Risk Management section to our feedback on the Governance

	5	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.	section. It is not clear how this disclosure requirement would be applied by managers in the context of scheme level risk management.
	3(b)	Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity to improved?	To address the issue referred to in response to question 3(a) above we propose adding the following marked up wording to the disclosure objective(s): "The objective of these disclosures is to enable ***<u>the</u>*** primary users ***<u>that are relevant to a climate reporting entity (or relevant to the registered schemes of a climate reporting entity that is a "Large Manager" as defined in FMCA)</u>*** to understand how an entity's**<u>*</u>** climate-related risks are identified, assessed and managed, and how those processes are integrated in existing risk management processes. Together with the Strategy disclosures, such information supports evaluations by primary users of the entity's**<u>*</u>** overall risk profile and the quality and robustness of the entity's**<u>*</u>** risk management activities. ***<u>*Where the reporting entity is a "Large Manager" as defined in FMCA, the relevant risks, risk profile and risk management activities are those relating to the climate reporting entity's registered schemes and/or separate funds (as applicable).</u>***" Additionally, an important point that is mentioned in the introduction to section 7.3, but not in the actual Standard is that the Risk Management section is not about the actual identification of climate-related risks (or opportunities), which is the focus of the Strategy thematic. TCFD guidance that we have read indicates that this has been a common error made by entities reporting in line with TCFD recommendations. To avoid this mistake, we would suggest including in the explanatory paragraph the following wording: ***<u>"The Risk Management section is not about the actual identification of climate-related risks (or opportunities), which is the focus of the Strategy thematic area."</u>***
	3(c)	Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?	As with our above response to question 2(c), and for the same reasons, our view is that paragraphs 4 and 5 should state that entities ***"must consider and disclose as relevant"***, rather than "**must include**".
Section 7.4 – Proposed defined terms	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?	Overall, we agree with aligning closely with the TCFD concepts. However, some of the "definitions" that are drawn from the TCFD material are much more than definitions, including lengthy explanations and examples which do not neatly plug into the standards. We suggest either streamlining the definitions and moving extra explanation to guidance, as suggested below, or having a "glossary" rather than definitions section.
	5	The XRB is particularly interested in the feedback on the following defined terms as they are currently	'Climate-related issues' – this does not need to refer to an umbrella, it should simply be: "means climate-related risks and climate-related opportunities". 'Climate-related risks' – this could be shortened to the first

		proposed: 'climate-related issues', 'physical risk', and 'transition risk'.	sentence and then add: "comprising physical risks and transition risks". All of the explanatory material that follows could be included in the guidance. 'Climate-related opportunities' – this could be shortened to the first sentence and all of the explanatory material that follows could be included in the guidance. 'Physical risks' – suggest amending to: "risks related to the physical impacts of climate change, which can be acute or chronic", and put the further details in the guidance.
	5(a)	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 would support alignment with the TCFD here.
	5(b)	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?	As we have stated above in answer to question 4, our view is that some of the definitions are a mix of definitions and explanations. We believe there is an opportunity to streamline these and move the explanatory material into the guidance.
	6	Do you have any other views on the defined terms as they are currently proposed?	See question 2(b) above for our comments on the definition of "board". We believe that the "value chain" definition does not comfortably fit with non-bricks and mortar businesses, including businesses that provide intangible services or investment products. In relation to Large Managers, it is not clear what is intended to be included within the value chain of both the climate reporting entity and the investment fund. It also is not clear whether the disclosure is limited to the investment fund's value chain or the climate reporting entity's value chain. This will likely become more relevant in the context of metrics and targets. At this point we are unable to suggest specific amendments as we are unclear as to what the intention is as regards Large Managers. As with all the issues we have presented, we request a meeting to discuss this with XRB, after which we can provide specific amendments.
Section 8 – Proposed NZ CS 2 and NZ CRDC	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 with this view given that the disclosures described in NZ CS 1 are a narrative on how the business operates, rather than year on year data comparisons.

Section 9 – Accompanying Guidance	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?	We agree with the approach being generally sector-neutral, but NZ CS 1 itself needs to accommodate the different basis for reporting that Large Managers have under FMCA, i.e. scheme/separate fund level rather than corporate entity level – and that managed investment schemes may comprise only a part of the reporting entity's business. This will become very relevant in the Metrics and Targets section where managers of investment schemes will, for example, need to understand clearly whether they are required to disclose corporate entity level emissions or not. The framework of scheme/separate fund level reporting is set out in the FMCA (and explained in Part 3 of this submission), and our view is that corporate entity level emissions are not relevant and may confuse primary users. AMP WMNZ, at a corporate entity level (as well as at a scheme level), has a significant focus on sustainability, including reducing emissions. However, we do not see entity level reporting as materially relevant to scheme/separate fund disclosures that are required. We request that the XRB release draft sector guidance in full, for industry consultation, in order to ensure that it covers all relevant aspects that relate to a particular industry. We see this as particularly important for Large Managers, given that the approach to reporting is different to other reporting entities (i.e. scheme/separate fund level rather than entity level).

Part 3: Additional comments/feedback

Section 4 – Who is required to report and by when?

Implementation timeframes

1. With the issuance of the final standard in December 2022 and the start date for reporting being 1 January 2023, this does not appear to allow for much time to consider late changes and be ready to comply for some reporting entities. For example, if a metric required for disclosure is released during that late stage, a business may not be in a position to collect data on that metric by the following month. We ask XRB to consider a longer lead in period between finalisation of the standards and implementation date.

Scheme vs Separate Fund level Climate Statements & Consolidation of all Climate Statements

2. AMP WMNZ is a climate reporting entity (**CRE**) and a "Large Manager" in respect of all of its schemes under s 461O(2). This particular definition of a CRE imports the same approach already taken to financial statements of FMC reporting entities, by referencing the application of s 461K(1)(b) (and indirectly, s 461A) to the scheme.[3]

   AMP WMNZ prepares scheme level financial statements for all of its nine schemes - except for the AMP Investment Trust (**AIT**).[4] AMP WMNZ prepares only separate fund level financial statements for AIT.[5] We note that the term "separate fund" has a specific meaning in the context of the FMCA, thanks to the importation of s 461A via the reference to s 461K(1)(b). Please refer to the footnotes for further detail.

   None of the AMP WMNZ schemes (except for AIT) have any separate funds. AIT is the only scheme with separate funds. It has approximately 30 separate funds. This means that, under s 461ZC(2)(b), AMP WMNZ will complete Climate Statements in relation to each of its schemes (except for AIT). Under s 461ZC(2)(a), AMP WMNZ will be required to complete Climate Statements in relation to each separate fund of AIT.

   We consider this to be a significant distinction that has perhaps not been fully grasped by the cohort of Large Managers and other stakeholders. We note that on page 8 of the XRB's NZ CS1 Consultation Document, it states that "*For managers of investment schemes, climate statements must be completed in relation to each separate fund of the scheme*". For the vast majority of the AMP WMNZ schemes, that simply won't be the case because

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3 We find the wording in s 461O(2)(b) problematic. Section 461K(1)(b) of the FMCA can't strictly "apply" to a manager in respect of a scheme. All it says is that a manager of a scheme in respect of which either scheme or separate fund financial statements are prepared under s 461A is a FMC reporting entity with a higher level of public accountability. We have taken the approach that the purpose behind section 461O(2)(b) is to import the same distinction taken to financial statements in respect of schemes or separate funds under s 461A into the requirements for Large Managers to produce Climate Statements in respect of schemes or separate funds.

4 Under s 461A(2), AMP WMNZ's and the schemes' liabilities (other than in respect of AIT) are not limited to a "particular group of assets" (being a **separate fund**), therefore only scheme financial statements are required.

5 Under s 461A(3), AMP WMNZ's and the AIT scheme's liabilities are limited to a separate fund, therefore both scheme and separate fund financial statements are required. However, AMP WMNZ relies on the FMC (Financial Statements for Schemes Consisting Only of Separate Funds) Exemption Notice 2017 in respect of AIT, which allows preparation of financial statements for the separate funds *only*, and relieves AMP WMNZ of the requirement to produce scheme financial statements as well. This exemption acknowledges that schemes like AIT can be structured so that the assets and liabilities of the funds within the scheme are so segregated from the other funds, that in reality there are no assets or liabilities left to the scheme (and no ability for assets and liabilities of one fund to cross over to support another fund).

the Large Manager will be completing one Climate Statement per scheme (as there are no separate funds).

We do not understand the policy rationale for this approach. The technical and administrative distinction between separate fund and scheme level financial statements has been copied and applied to this regime. It will result in different types of Climate Statements with different levels of details. We do not understand how this will assist the primary users, which for Large Managers are existing and potential investors.

We do acknowledge that this distinction is now law and it is not something XRB can change on its own. We consider that the XRB could, however, assist by allowing Large Managers to consolidate all of their Climate Statements (whether for schemes or separate funds) into one document – including stating common content only once.

Section 461ZE(b) states that there is nothing in the relevant part of the Amendment Act preventing us from combining the Climate Statements in relation to an accounting period and a scheme into a single document. This seems to be limited to combining the Climate Statements of separate funds into a single document where they relate to the same scheme and the same accounting period.

We ask XRB to consider allowing Large Managers to also combine the Climate Statements of *multiple schemes* into a single document (where they relate to the same accounting period). While this is not explicitly enabled by the legislation, it is not prohibited either. Furthermore, the existing ability to combine separate fund Climate Statements is not actually an explicit power conferred by the legislation. The legislation is simply stating that there is nothing preventing that from being done, which we consider is a clear affirmation of parliament’s intention to create efficiencies in reporting where possible.

We submit that there is no legal reason why the XRB could not allow Large Managers to also combine the Climate Statements of each of their schemes (as well as their separate funds) into a single document (where they relate to the same accounting period). In addition, our view is that this approach has significant benefit to primary users as important information would not be clouded within (or obfuscated by) multiple repetitive documents. Perhaps an appropriate place to allow this consolidation would be in the entity-specific guidance the XRB has indicated it will likely produce.

We propose that, should the XRB allow this, the information common to each scheme and separate fund could be stated once, at the beginning of the document. This would cover the vast majority of the Risk, Governance and Strategy disclosures, because they do not change from scheme to scheme (or separate fund to separate fund). The Targets/Metrics section of the document could then break down the disclosures by scheme and by separate fund, as required by the existing legislation (though we note we have not yet seen the draft Climate Standard for the Strategy/Targets and Metrics sections).

If this combination of scheme Climate Statements into a single document were allowed, the primary users (being investors) would not have to consult multiple documents with significant amounts of repeated content to find the information they need. This would make the Climate Statements more useful to those primary users, and it would also assist them with comparing the various Large Managers’ positions on climate change risk and the actions and strategies they are implementing. The per scheme detail (and per separate fund, where required) would still be readily accessible.

AMP WMNZ would be happy to discuss with the XRB the analysis it has completed leading it to the conclusion that most AMP WMNZ schemes do not have separate funds (and will therefore produce scheme Climate Statements only).

We welcome any opportunity to collaborate with XRB on a potential ability to combine scheme Climate Statements into a single document.

Section 7.1 – Proposed structure of NZ CS 1

1. Table 2 – Comparative information and consistency of reporting. When will it be confirmed whether comparative information will or won't be required for Year 1 reporting? This could have an impact on planning and resource requirements in 2022/2023.

Section 10.1 – Scenarios

1. The use of consistent scenarios seems useful. We would agree that sector level scenarios could also be useful.