

Auckland Council Submission

Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures

Governance and Risk Management Consultation Document

NZCS1

November 2021

Introduction

As an entity that is deeply committed to climate action, Auckland Council appreciates the opportunity to provide feedback on the consultation document “Climate-related Disclosures, Governance and Risk Management Consultation Document”.

The Auckland Council Group (the group) declared a climate emergency in June 2019, committing the group to necessary action to manage and mitigate climate-related risks and make use of the opportunity’s climate change presents.

In December 2020 the group laid out its long-term plan for climate action in the region with the adoption of Te Tāruke-ā-Tāwhiri: Auckland’s Climate Plan. The plan established two core goals for the region:

- Reduce greenhouse gas emissions by 50 per cent by 2030 and achieve net zero emissions by 2050; and
- Adapt to the impacts of climate change by ensuring we plan for the changes we face on our current emissions pathway.

Climate action has been identified as a priority area in the group’s 10-year Recovery Budget 2021-2031 (LTP) and will invest \$152 million in climate action over the next 10 years. This is the first year that Auckland Council has included a Climate Action Investment Package in the LTP.

In August 2021, Auckland Council’s Climate Change and Environment Committee endorsed the C40 Cities Divest/Invest declaration, reaffirming Auckland Council’s policy of not investing in companies involved in the production of fossil fuels and committing instead to championing investments in the green economy.

The group has been active in the green bond market for three years, with a total of \$850 million raised in green bonds since 2018 to finance and refinance projects such as electric trains and cycling infrastructure. Our green bond programme means the organisation will be a mandatory participant under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill.

In response to demands of investors the group has been an early adopter of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations in New Zealand and has voluntarily disclosed under the framework for the last two years. As we worked through the disclosures it became evident that the group would have to make fundamental changes to the organisation to ensure climate-related risk management is embedded into our governance structures, strategic, and financial planning processes. Once those changes have been made, we believe that the TCFD disclosures will support informed decision making that will benefit all.

Q1. 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?

Climate Standard 1: Climate-related Disclosures (NZ CS 1) has been written for profit-oriented entities. Primary users in the draft reporting standard are clearly defined as potential investors, lenders, and insurance underwriters. This is so these stakeholders can make informed decisions regarding the allocation of capital in the market based on climate change governance, risks, strategies, and progress in implementation. However, several of Public Benefit Entities are caught by the requirements, including Auckland Council Group. We are fully supportive of the purpose and objectives of the standard, but for Public Benefit Entities, capital comes from many sources and the public accountability of these entities means that the concept of primary user of the Annual Report may be much broader. We are however concerned if the much broader view is taken of primary users, reporting requirements will be significantly wider, onerous, and costly to comply with.

We believe that the standard should make it clear that for Public Benefit Entities, primary users remain potential investors, lenders, and insurance underwriters. A pragmatic solution would be to be explicit in the “Basis of Preparation” section of the notes for the financial statements, that the disclosures have been prepared under Climate Standard 1 and the primary users are those defined in the standard. Alternately, Public Benefit Entities could perform a materiality assessment to determine who their primary users are and disclose that. In this case guidance is required to help entities determine who a primary user is, with the focus being on narrowing down users to primary versus secondary and other users.

Auckland Council would like to note that the reporting standards are principles based and will require preparers to exercise professional judgement in the absence of clear guidance. XRB will need to ensure the guidance and examples are clear and each sector is provided for. This is for the benefit of preparer, standard setters, and auditors.

Q2. Do you think the proposed Governance section of NZ CS 1 meets primary user needs?

- 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.

Auckland Council agrees that the information provided under the governance section of NZ CS will provide information that is useful for decision making to primary users. Auckland Council agrees with the addition of the following disclosures:

- 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;
- 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;

- 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?**

Auckland Council does not agree that this section of the standard is clear and unambiguous. It is broad and lacking in detail which would ensure that consistent information is disclosed across entities. We recommend that the section is strengthened with supporting guidance

with clear examples to ensure preparers understand what is required from these disclosures.

Q3. Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?

- 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.**

Auckland Council agrees that the information provided under the risk management section of NZ CS 1 will provide information that is useful for decision making to primary users.

Auckland Council agrees with the addition of the following disclosures:

- the tools and methods used to identify, and to assess the scope, size, and impact of the climate-related risk
- the short-, medium-, and long-term time horizons considered, including specifying the duration of each of these time horizons
- the value chain stage(s) covered
- the frequency of assessment

- 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?**

As with the governance section, Auckland Council does not agree that this section of the standard is clear and unambiguous. It is broad and lacking in detail which would ensure that consistent information is disclosed across entities. We recommend that the section is strengthened with supporting guidance with clear examples to ensure preparers understand what is required from these disclosures.

Q4. 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?

Auckland Council agrees that the XRB should align its definitions closely with the TCFD definitions. This enables consistency and compatibility in reporting with international entities.

Q5. 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'.

- 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'?**

Auckland Council strongly believes that the XRB should keep the use of 'climate-related opportunities' and 'climate-related risks' terms separate. Auckland Council does not agree that climate-related risks and climate-related opportunities should be encompassed under the umbrella term 'climate-related issues'. This would lead to confusion amongst users. The terms should align with other climate risk assessment guidance that is publicly available and is currently used by many

organisations to assess their climate risks. e.g. Local Climate Change Risk Assessment by the Ministry for the Environment (MfE). MfE's definition for risk (which references IPCC, 2014) is separate to opportunity:

- Risk: The potential for consequences where something of value is at stake and where the outcome is uncertain, recognising the diversity of values. Risk is often represented as probability or likelihood of occurrence of hazardous events or trends multiplied by the impacts if these events or trends occur. The term risk is used to refer to the potential, when the outcome is uncertain, for adverse consequences on lives, livelihoods, health, ecosystems and species, economic, social and cultural assets, services (including environmental services), and infrastructure. Risk results from the interaction of vulnerability, exposure, and hazard. To address the evolving impacts of climate change, risk can also be defined as the interplay between hazards, exposure, and vulnerability (IPCC, 2014c).
- Opportunities: are the positive outcomes that may arise from a changing climate.

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 guidance?

We have noticed that in the climate-related risks definition you directly state physical risks but not transitional risks. The definition should directly state both physical and transition to be as clear as possible for new users. We support more detailed definitions that explain climate-related risks in a way that ensures their unique characteristics are considered.

An example of how this could be worded might be:

Climate-related risks: The potential negative impacts of climate change on an entity. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns. Climate-related risks can also be associated with the transition to a lower-emissions global and domestic economy (these are referred to transition risks), the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.

Q6 Do you have any other views on the defined terms as they are currently proposed?

To ensure consistency with other financial reporting standards, we suggest the use of 'those charged with governance' should replace "Board of Directors" as it is a more encompassing term and can be applied to all types of organisations.

Q7 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?

Auckland Council acknowledges the need for adoption provisions for some of the specific disclosures, in particular, disclosures under the strategy and metrics and target sections. However, Auckland Council suggest a transition period for the Risk Management disclosure. Responding to the risk management disclosures won't be onerous, however, for those organisations who are yet to

implement a framework for identifying climate risk, this can be quite a large task and requires an organisation to have access to the right technical knowledge which may not be readily available in New Zealand's current labour market. We suggest XRB re-consider including adoption provisions for the risk management disclosures

Q8 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 support the XRB's decision to develop principle-based reporting standards, however, the XRB should consider how this will impact standard setters, auditors and regulators. We agree that the disclosures should be concise and sector neutral, but they are currently too broad and do not provide standards setters, auditors, and regulators with clearly defined parameters.

Sector-specific guidance will be important, especially for those entities who are less advanced, and should include examples that help preparers understand what 'good looks like' in addition to examples of ways in which activities can occur and disclosures can be made. Although the XRB states the guidance is not intended to specify a level of performance that climate reporting entities should achieve or be taken as the only 'correct' way to carry out the activities, we feel that if the disclosures are going to create a change in how entities embed climate-related risk management into entity decision making, preparers would benefit from examples of what good looks like. Should the XRB not have the time or resource to adequately address sector-specific guidance we recommend the XRB consider measures such as reporting awards where disclosures may be critiqued by independent panels, which will provide reports with examples of what 'good looks like'. This initiative may be useful in the first years, in addition to sector specific guidance.

We also note that the standard is currently written for general purpose financial reports in the "For Profit" sector. To future proof the standards the standard needs to cater for all applicable entities, which includes public sector and not for profit entities.

Any guidance documents should be clearly prefaced to ensure that they are not taken by auditors as required disclosures.

5.2 Based on the TCFD: NZ CS 1 is also intended to be short and succinct, focusing more on high-level areas for disclosure, rather than being overly prescriptive. This means that it should be sufficiently flexible to allow reporting entities to provide more or less information depending on the extent to which they are impacted by climate change.

Auckland Council agrees that the guidance should be flexible depending on how a reporting entity is impacted by, or impacts on climate change, however, the XRB will need to be mindful that allowing this flexibility does not compromise the level of detail provided. As mentioned earlier, guidance and examples should be clear and available for most sectors.

NZ CS1 will be promulgated in December 2022 – with the first reporting period commencing 1 July 2023 (1 January 2023 for entities with December balance dates) – the timeline is very tight to ensure that entities have both the disclosure for the first period of reporting agreed (especially strategy and appropriate metrics), and that they have the underlying systems in place with processes and controls that are properly designed and operating effectively.

Domestic and International compatibility

Auckland Council agrees that the XRB should closely align NZ CS 1 with the TCFD's recommended disclosures. This is to ensure that Aotearoa New Zealand's reporting is consistent with international reporting. If a globally relevant climate-related disclosure standard was published, we would recommend closely aligning with that to enable international comparability.

Conclusion

This standard will be an important framework that will help entities make better financial decisions and provide the transparency for better investment decisions while helping a broad range of users understand the financial implications associated with climate change. Auckland Council thanks the External Reporting Board for the opportunity to provide feedback on the consultation document "Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures, Governance and Risk Management Consultation Document", and looks forward to providing further input in the next stages of the consultation process.