

Submission

to the

External Reporting Board

on the

Aotearoa New Zealand Climate
Standard 1: Climate-related
Disclosures (NZ CS 1)

Governance and Risk Management
Consultation

22 November 2021

About NZBA

1. The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.
2. The following seventeen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - China Construction Bank
 - Citibank N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - Industrial and Commercial Bank of China (New Zealand) Limited
 - JPMorgan Chase Bank N.A.
 - Kiwibank Limited
 - MUFG Bank Ltd
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited

Contact details

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Summary

I. Executive Summary

1. NZBA welcomes the opportunity to submit to the External Reporting Board (**the XRB**) on the Aotearoa New Zealand Climate Standard 1: Climate Related Disclosures (**the Standard / NZ CS 1**) Governance and Risk Management consultation.
2. NZBA supports the policy underpinning the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. The policy reflects the increasing and urgent need to mitigate the significant effects of climate change. As noted in the legislation, financial markets can play a major part in shifting investment towards low-emission, resilient development pathways, assisted by the disclosure to investors of consistent, comparable, reliable, and clear information about climate-related risks and opportunities.
3. NZBA commends the work that has gone into developing the Standard and the iterative consultation and engagement process which has now commenced. NZBA members are committed to producing high-quality climate-related disclosures, with some members producing voluntary disclosures already. NZBA members will be both reporting entities and users of climate disclosures, and will benefit from a strong regulatory regime and standards that produce high-quality disclosures.
4. Overall, NZBA is supportive of the XRB's commitment to align the Standard with Task Force on Climate Related Financial Disclosures (**TCFD**) recommendations. Where the XRB has gone beyond TCFD recommendations (including to align with evolving international standards), NZBA has generally supported the XRB's proposals, and comments on these changes in **Appendix 1**. In general terms, NZBA seeks to maintain flexibility for reporting entities in order to recognise the evolving nature of climate related disclosures, to future-proof the Standard, and to align with overseas developments.
5. **NZBA and its members are committed to engagement on the Standard with the XRB and would welcome the opportunity to work with you through 2022 to determine whether specific guidance for the banking sector would be useful.**
6. NZBA sets out below (i) its overarching comments on each section, (ii) its specific responses to the consultation questions and (iii) a table showing specific comments on each line item in the proposed two sections (**Appendix 1**).

II. Detailed Response

Structure of NZ CS 1

7. NZBA strongly supports the overall structuring of the Standard according to the four pillars developed by the TCFD – Governance, Risk Management, Strategy, and Metrics & Targets. Climate-related reporting is rapidly evolving and emerging worldwide. For example, the IFRS Foundation has just this month published prototype climate and general disclosure requirements aligned with TCFD,¹ prepared in anticipation of the establishment of the International Sustainability Standards Board (**ISSB**) in 2022, which was announced at the COP-26 international climate change negotiations in Glasgow.² We expect that standards and regulation will continue to develop and refine globally in accordance with the TCFD recommendations. Hence, alignment with TCFD recommendations and guidance is crucial in order for New Zealand to maintain comparability and compatibility with other jurisdictions.
8. NZBA supports the inclusion of an objective for each pillar within the Standard. This helps guide reporting entities to select the most relevant information for disclosure.
9. NZBA also supports the XRB’s proposed approach requiring entities to make statements about process and systems, as opposed to particular substantive outcomes. NZBA supports the XRB’s intention not to have the disclosures used as a checklist. We consider that the Standard generally strikes the right balance between permitting entities flexibility while directing entities as to the details of what is expected.
10. NZBA makes several suggestions to permit the Standard to allow an entity to comply with it by stating that they are *not* taking particular action at this time (and, if they wish, providing details) via the use of “whether, and if so, how” language (see below).
11. NZBA considers it would be helpful for the associated guidance and/or the adoption standard (NZ CS 2) to clarify whether entities are able to and/or expected to include a discussion of progress made within the organisation to further incorporate climate-related issues into board and management decision-making. For example, it may be relevant and useful for users for entities to describe impending future work.

Governance disclosures

12. Detailed discussion of each proposed disclosure is set out in **Appendix 1**. NZBA makes the following overarching submissions:
 - a. NZBA supports the high-level governance disclosures at **paragraph 3** of NZ CS 1 which align with the proposed objective and the TCFD recommended disclosures.

¹ <https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf>

² <https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/>

- b. NZBA supports the further disclosures at **paragraphs 4 and 5**, which generally reflect TCFD recommendations. The focus on process and description of whether and how the entity deals with the matters in the disclosures will allow reporting entities to tailor their disclosure to their individual circumstances while setting clear expectations.
 - c. In consideration of the branch structures of many members, the NZBA suggests it would be beneficial to replace the references to “*board*” with “*governance body or bodies*” as used in the ISSB Climate Related Disclosure Prototype. This would provide additional flexibility to branch operations to reflect the governing authority that most directly impact action undertaken in New Zealand. The definitions section could make it clear that the “*governance body*” is one that sits above “*management*” (see proposed definition on p 8 below).³ Operational examples could then be provided in financial services sector-specific guidance developed with the NZBA.
 - d. For the above reason, and also to ensure maximum alignment with TCFD, NZBA prefers not to require entities to disclose information as to specific board expertise at paragraph 4(d) at this time. NZBA prefers that this matter be addressed by guidance, for example regarding Governance disclosure 3(a).
 - e. NZBA makes a minor proposal regarding paragraph 5(a) to cater for situations where climate related responsibilities have been assigned by the organisation without specific board involvement.
13. NZBA therefore proposes the following specific changes in red:
- 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)):*

³ For example, in accordance with APRA CPS 220, foreign banks may meet governance requirements by appointing a “senior officer outside Australia”, who is regarded as an equivalent of the board. See APRA, Prudential Standard CPS 220 – Risk Management, <https://www.apra.gov.au/sites/default/files/Prudential-Standard-CPS-220-Risk-Management-%28July-2017%29.pdf>, n 3.

(a) processes and frequency by which the board and/or board committees are informed about climate-related issues;

(b) *whether and, if so* how the board sets and monitors progress against goals and targets for addressing climate-related issues;

(c) *whether and, if so* 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 ~~are assigned~~ 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.

Risk Management disclosures

14. Detailed discussion of each proposed disclosure is set out in **Appendix 1**. NZBA makes the following overarching submissions:

- a. NZBA supports the high-level disclosures at **paragraph 3** and generally the disclosures in **paragraphs 4 and 5** which align with the proposed objective and the TCFD recommended disclosures and guidance.
- b. NZBA supports the proposed approach set out at 7.3.1 of the Consultation Document to require disclosure at the physical risk and transition risk level (rather than requiring entities to report against the 17 specific risks outlined in the TCFD Table A1). Disclosures will be most beneficial to users if they are focused and tailored to risks of most relevance to the reporting entity, rather than being overly prescriptive.

- c. NZBA supports the inclusion of disclosures 4(a) – (c) which give more detail to the risk management processes being described, despite this material having to date been included only in the TCFD “Strategy” section.
 - d. NZBA makes a minor amendment in disclosure 4(a) to suggest that the reference to “*tools and methods*” be replaced with “*processes*”. The “*tools and methods*” language is more specific than the TCFD recommendations and is a quickly evolving area.
 - e. NZBA would prefer the reference in paragraph 4(b) to “*short, medium and long*” time horizons to change to “*Must include the **specific** time horizons considered, including specifying the duration of each time horizon*”, as reporting entities may use different time horizons for different purposes (eg client-level risk assessments, portfolio stress testing, budgeting, business planning, strategic analysis) – and higher quality disclosures are likely to be achieved by entities describing the actual processes used.
 - f. NZBA proposes a minor edit to para 4(c) on the reference to value chain, and seeks guidance as to how the XRB envisages this applying to banks (see **Appendix 1**).
 - g. The TCFD’s supplemental guidance for banks on Risk Management recommends that banks consider characterizing their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk, and operational risk.⁴ NZBA supports this indication.
15. NZBA therefore proposes the following specific changes in red:

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 **whether and if so**, how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management.*

⁴ Task Force on Climate-related *Financial Disclosures Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* October 2021, available online: https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf at p27.

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 processes~~ used to identify, and to assess the scope, size, and impact of the climate-related risk;

(b) the ~~short-, medium-, and long-term specific~~ time horizons considered, including specifying the duration of each ~~of these~~ time horizons;

(c) ~~which the~~ value chain stage(s) is/~~are covered-included~~; 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.

III. Response to XRB Consultation Questions

Question	NZBA Comment
<p>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?</p>	<p>NZBA supports the proposed definition of “primary user” which aligns with TCFD guidance.</p> <p>Any suggestion to include broader (or secondary) users should be resisted: as noted in the Consultation Document, such secondary users are not allocating capital or making other similar decisions on the basis of the disclosures.</p>
<p>2) Do you think the proposed Governance section of NZ CS 1 meets primary user needs?</p> <p>3) Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?</p>	<p>See our detailed responses above and in Appendix 1 below.</p>
<p>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?</p> <p>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’.</p>	<p>NZBA supports close alignment with TCFD definitions. This alignment will assist in achieving a high degree of compatibility with other jurisdictions and global activities of overseas incorporated registered banks. It will also assist entities with building upon reporting, monitoring, and data gathering that they have undertaken on a voluntary basis to date.</p> <p>NZBA considers that the distilled definitions of “transitional risk” and “physical risk” are helpful and align with general understandings of those terms in climate policy, as well as with the overarching TCFD definition of “climate-related risks”.</p>
<p>6) Do you have any other views on the defined terms as they are currently proposed?</p>	<p>Board: As discussed above, NZBA suggests that the definition of “board” is either amended or replaced by “governance body or bodies”, as used in the IFRS Foundation (ISSB) prototype, to recognise the existing flexibility in governance structures for banks approved by the RBNZ. Proposed definition:</p>

	<p><i>“Governance body: A body elected or appointed to oversee the activities of the entity and which has the ability to hold management accountable. This includes a board of directors, or any other representative of a corporate parent that exercises control over the entity.”</i></p> <p>Value chain: As set out in Appendix 1, it is unclear how this definition should be interpreted for a financial sector organisation. The current definition is more applicable to a bank’s clients, rather than a bank. It would be useful for the definition or guidance to explain what is expected of these disclosures for financial services providers.</p>
<p>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?</p>	<p>NZBA considers it <i>would</i> be appropriate to provide brief adoption or transitional provisions for entities in relation to Governance and Risk Management disclosures. It would be useful to recognise:</p> <ul style="list-style-type: none"> (i) that minimum expectations and best practice of governance and risk management of climate-related matters are both evolving quickly in New Zealand and globally; (ii) that many organisations are in the early stages of developing their capability in relation to climate-related reporting, including data gathering, internal policy development, and tailoring these requirements to the specifics of their particular sector; and (ii) that entities may include in their reporting anticipated actions and/or future plans to improve their disclosures. Although that information is of a more qualitative nature, it will still be beneficial for users if reporting entities can signal expected improvement and progress.
<p>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?</p>	<p>NZBA supports the sector-neutral approach to the Standard.</p> <p>NZBA prefers that any guidance for the banking sector:</p> <ul style="list-style-type: none"> (i) remain aligned with existing TCFD guidance for the banking sector; and (ii) be developed in close consultation with the FMA and RBNZ.

	<p>In particular, the FMA identified on 17 November 2021 that it will be issuing early high-level guidance for reporting entities (see November 2021 “CRD regime: FMA Implementation Approach”). The RBNZ identified in October 2021 that it would be developing its own guidance material for its regulated entities, and also looking to align its climate stress testing with TCFD risk management disclosures (see RBNZ Climate Changed Report 2021).</p> <p>Members find the existing TCFD guidance for the banking sector useful. For example, the TCFD guidance states that <i>“Banks should consider characterizing their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk and operational risk.”</i> In the March 2022 consultation, NZBA would welcome engagement on the TCFD’s additional banking sector specific guidance regarding Strategy and Targets & Metrics disclosures.</p> <p>Where XRB adopts TCFD guidance, it is not necessary to reproduce that guidance – NZBA considers it would be sufficient for XRB to confirm it considers the TCFD guidance is applicable. However, if XRB were to propose guidance which varied significantly from existing TCFD frameworks, that would be appropriate to set out in more detail.</p> <p>NZBA would welcome the opportunity to collaborate with the XRB on any banking sector guidance in 2022.</p>
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IV. Further issues under consideration

Issue	NZBA Comment
Scenarios	<p>Establishing appropriate scenarios, informed by New Zealand-specific data and relevant to the New Zealand context is a key challenge. NZBA welcomed the RBNZ’s indication in its October 2021 Report that it was identifying gaps where additional data sources would be needed to accurately predict risk pathways for New Zealand; and that further work was needed to see whether the scenarios developed by the Network for Greening the Financial System would be appropriate for the New Zealand context. NZBA supports the call for further work and Government guidance in order to develop a standardised set of scenarios, relevant to New Zealand’s context, to inform climate-related reporting.</p>
Assurance of GHG emissions	<p>NZBA considers that delayed requirements for assurance are appropriate and will assist reporting entities to transition to this new regime. Certain banks are already disclosing their GHG emissions and would welcome the opportunity to share learnings with XRB as it considers what extent of GHG emissions disclosures will be required (especially regarding Scope 3 disclosures).</p> <p>Banks with Australian reporting requirements may be required to report their GHG emissions annually in Australia on 30 June. NZBA welcomes engagement with XRB on whether this requirement can be aligned with the new XRB requirements.</p>
Presentation requirements	<p>It is important for NZBA members to be able to choose whether they present climate-related disclosures in a stand-alone document or within their annual report, as the legislation permits, and also whether to combine climate statements of related entities. Members seek flexibility given the various different governance structures, so that these disclosures can be most useful for users. This flexibility is important as it allows entities to incorporate these new reporting requirements into their existing reporting systems and enables comparability for banks producing climate statements in multiple jurisdictions (avoiding issues with rigid deadlines meaning that multiple or potentially overlapping statements must be prepared to accommodate deadlines in different jurisdictions).</p>
Materiality	<p>NZBA would welcome further consultation in March 2022 on a draft definition of ‘material’, as signalled in the Consultation Document. It is important that materiality is considered on a sector-by-sector basis.</p>

	<p>NZBA notes that in the TCFD guidance, not all recommended disclosures involve an assessment of materiality (for example, disclosure of Scope 1 and 2 emissions is not subject to a materiality assessment, but disclosure of Scope 3 emissions is). TCFD guidance also recommends that asset managers and asset owners consider materiality “in the context of their respective mandates and investment performance for clients and beneficiaries”. It will be important to ensure that materiality is set appropriately for the New Zealand context.</p>
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Appendix 1: Table of specific submission points for each proposed disclosure

Support
Support with minor suggestions
Prefer amendment

XRB proposed disclosure requirement	TCFD equivalent ⁵	NZBA submission
Governance		
--- Board		
3(a) – Mandatory – Must disclose a description of the board’s oversight of climate-related risks and climate-related opportunities	Recommended disclosure a) – Governance - Describe the board’s oversight of climate-related risks and opportunities.	Support. This approach is aligned with the TCFD recommended disclosures and provides direction but also flexibility which recognises potential differences in reporting entities’ organisational structure and approaches.
4(a) - Mandatory – Must include information on processes and frequency by which board / board committees are informed about CRIs (climate related issues)	Guidance for Governance recommended disclosure a) – Organisations should consider including a discussion of processes and frequency by which board / board committees are informed about CRIs.	Support. NZBA would welcome guidance clarifying that the statement should include an explanation of the nature and types of content covered in board reporting, as this is not immediately clear from “processes”.

⁵ Task Force on Climate-related *Financial Disclosures Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures* October 2021, available online: https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

		NZBA cautions that specific data such as the frequency of board discussions may be compared across the sector without any understanding of the quality of those discussions. Frequency alone does not necessarily provide an insight into the quality of reporting.
4(b) - Mandatory – Must include information on how the board sets and monitors progress against goals and targets for addressing climate-related issues	Guidance for Governance recommended disclosure a) – Organisations should consider including a discussion of how the board monitors and oversees progress against goals and targets for addressing climate-related issues.	Support. Suggest including “ <i>whether and how the board monitors and oversees progress...</i> ” to permit greater flexibility for reporting entities if progress, goals and targets are primarily monitored by management.
4(c) - Mandatory – Must include information on 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	Guidance for Metrics and Targets recommended disclosure a) – Where climate-related issues are material, organizations should consider describing whether and how related performance metrics are incorporated into remuneration policies.	First, support content and proposed approach to require description of process rather than requiring specific outcome. Suggest including “ <i>whether and how the board holds management accountable...</i> ” to permit greater flexibility for reporting entities if climate-related policies, strategies and targets are primarily implemented by management. Second, support inclusion of reference to remuneration, even though this criteria is currently within the TCFD “Metrics and Targets” guidance, recognising the focus on remuneration disclosures in the latest guidance and prototypes.

<p>4(d) - Mandatory – Must include information on 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</p>	<p>Not in the TCFD recommended standard nor guidance but included in other international standards such as the European Financial Reporting Advisory Group proposed climate standard [here], or the IFRS (ISSB) prototype.</p>	<p>Do not support this content as a mandatory requirement at this early stage.</p> <p>NZBA supports the proposed approach not to require a disclosure of specific climate-related skills and competencies of individual board members for the reasons set out in section 7.2.1 of the Consultation Document. However, NZBA does not consider that the way that a board accesses expertise should be a mandatory disclosure at this time. Suggest this is moved to guidance.</p>
<p>4(e) - Mandatory – Must include information on whether and if so, how, the board incorporates climate-related issues into governance processes and decision making</p>	<p>Not expressly contained in guidance or recommended disclosure. But the content and substance is captured in TCFD’s Guidance for the Governance pillar.</p>	<p>Support.</p> <p>Support decision to put more detailed examples in TCFD equivalent into guidance (e.g. references to annual budgets, major capital expenditure etc).</p> <p>Given the reference to “governance processes” is duplicative (eg those matters in proposed disclosures 4(a), (b), (c), and 5(a) and (c), suggest guidance on what is anticipated here.</p>
<p>--- Management</p>		
<p>3(b) – Mandatory – Must disclose a description of management’s role in assessing and managing climate-related risks and climate-related opportunities</p>	<p>Recommended disclosure b) – Governance – Describe management’s role in assessing and managing climate-related risks and opportunities.</p>	<p>As above, strongly support content and inclusion as a disclosure.</p>

<p>5(a) – Mandatory – Must include information on 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</p>	<p>Guidance for Governance recommended disclosure b) – Organisations should consider including information on whether the organization has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues.</p>	<p>Support.</p> <p>NZBA prefers to slightly adjust the wording to “<i>whether climate-related responsibilities are assigned to...</i>” to avoid the presumption that the board is responsible for assignment of specific responsibilities, when this may be done via other governance structures. This is a similar approach to the TCFD language, which refers to “the organisation” assigning climate-related responsibilities.</p>
<p>5(b) - Mandatory – Must include a description of the related organisational structure(s) showing where these positions and committees lie</p>	<p>Guidance for Governance recommended disclosure b) – Organisations should consider including a description of the associated organizational structure(s).</p>	<p>Support.</p>
<p>5(c) - Mandatory – Must include processes by which management is informed about, makes decisions on, and monitors, climate-related issues.</p>	<p>Guidance for Governance recommended disclosure b) – Organisations should consider including information on: how processes by which management is informed about climate-related issues; and management (through specific positions and/or management committees) monitors climate-related issues.</p>	<p>Support.</p>
<p>Risk Management</p>		
<p>3(a) – Mandatory – Must disclose (for transition and physical risks) a description</p>	<p>Recommended disclosure a) – Risk Management - Describe the organization’s</p>	<p>Support.</p>

<p>of its processes for identifying and assessing climate-related risks</p>	<p>processes for identifying and assessing climate-related risks.</p>	
<p>3(b) – Mandatory – Must disclose (for transition and physical risks) a description of its processes for managing climate-related risks</p>	<p>Recommended disclosure b) – Risk Management - Describe the organization’s processes for managing climate-related risks.</p>	<p>Support.</p>
<p>3(c) – Mandatory – Must disclose (for transition and physical risks) a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management</p>	<p>Recommended disclosure c) – Risk Management - Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.</p>	<p>Support. Suggest include “<i>whether and, if so how</i>” language to provide flexibility.</p>
<p>4(a) - Mandatory – Must include information on the tools and methods used to identify, and to assess the scope, size, and impact of the climate-related risk</p>	<p>Guidance for Governance recommended disclosure a) – Organizations should also consider disclosing the processes for assessing the potential size and scope of identified climate-related risks.</p>	<p>Generally support content, including reference to “impact” of climate risk, despite the shift from more general TCFD language.</p> <p>Prefer to retain reference to “<i>processes</i>” rather than more specific requirement to disclose “<i>tools and methods</i>” given this is more specific than the TCFD recommendations and is an evolving area as third party providers develop their expertise and service offerings to assist in identification of climate risks.</p>
<p>4(b) - Mandatory – Must include the short-, medium-, and long-term time horizons</p>	<p>Guidance and recommended disclosure a) for Strategy pillar.</p>	<p>Generally support content, even though this criteria currently sits the TCFD “Strategy”</p>

<p>considered, including specifying the duration of each of these time horizons</p>		<p>guidance, recognising the overlap between risk assessment and strategy on this topic.</p> <p>NZBA welcomes RBNZ’s indication in its October 2021 report that it is working to develop appropriate climate scenarios (see above). This scenario development should inform XRB guidance and expectations, particularly if it is still being refined and developed when the first climate-related disclosures are being prepared and lodged.</p> <p>NZBA would prefer this language to change to “Must include the specific time horizons considered, including specifying the duration of each time horizon”, as reporting entities may use different time horizons for different purposes (eg client-level risk assessments, portfolio stress testing, budgeting, business planning, strategic analysis) – and higher quality disclosures are likely to be achieved by entities describing the actual processes used.</p>
<p>4(c) - Mandatory – Must include the value chain stage(s) covered</p>	<p>Guidance and recommended disclosure b) for Strategy pillar.</p>	<p>Generally support, but unclear how the concept of “value chain” should be interpreted for a financial sector organisation. The current definition is more applicable to a bank’s clients, rather than a bank. We suggest it would be more appropriate to</p>

		expand upon what is meant by “value chain” in guidance where sector-specific issues can be considered.
4(d) - Mandatory – Must include the frequency of assessment.	Not expressly contained in TCFD guidance or recommended disclosures, or in the IFRS Foundation (ISSB) prototype. Though it is included in the CDP Climate Change 2021 Reporting Guidance.	Support. NZBA cautions that specific data on frequency of risk assessment does not necessarily indicate to users the quality of the assessment undertaken.
5(a) - Mandatory – Must include information on how entity determines the relative significance of identified climate-related risks	Guidance for Risk Management recommended disclosure a) - Organizations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organizations determine the relative significance of climate-related risks in relation to other risk.	Support. Potentially could incorporate paragraphs 5(a) – (c) into paragraph 4 above. Could also potentially amalgamate paragraphs 5(a) and 5(b).
5(b) - Mandatory – Must include information on how entity determines the relative significance of climate-related risks in relation to other risks	Guidance for Risk Management recommended disclosure a) - Organizations should describe their risk management processes for identifying and assessing climate-related risks. An important aspect of this description is how organizations determine the relative significance of climate-related risks in relation to other risk.	Support.
5(c) - Mandatory – Must include information on how entity makes decisions to mitigate,	Guidance for Risk Management recommended disclosure b) - Organizations should describe their processes for	Support.

<p>transfer, accept, or control those climate-related risks.</p>	<p>managing climate-related risks, including how they make decisions to mitigate, transfer, accept, or control those risks. In addition, organizations should describe their processes for prioritizing climate-related risks, including how materiality determinations are made within their organizations.</p>	
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