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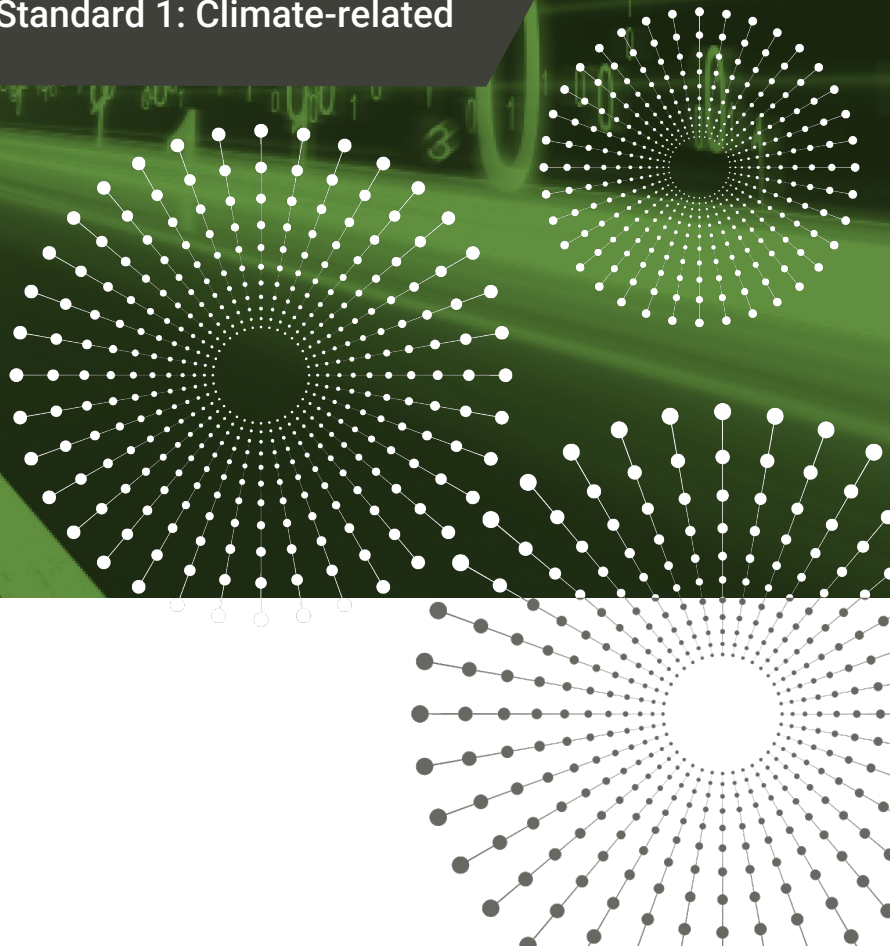
Scenario analysis and climate-related disclosures

Clarifying the definition and purpose of scenario analysis for
Aotearoa New Zealand Climate Standard 1: Climate-related
Disclosures (NZ CS 1)



July 2022

v1.1



Scenario analysis in the context of NZ CS 1

The proposed Strategy section of NZ CS 1 requires entities to describe details of the scenario analysis they have undertaken. Entities will need to approach scenario analysis as an exploratory rather than a predictive process which illustrates challenging but plausible future circumstances.

Defining scenario analysis

Climate-related scenarios are plausible, challenging descriptions of how the future may unfold. These descriptions are based on coherent and internally consistent sets of assumptions about the drivers of future physical and transition risk and opportunity (and the relationships between them).

Climate-related scenarios should *not* be probabilistic, predictive, or a perceived 'most likely' outcome of climate change. The compounding uncertainty of future socioeconomic, regulatory, and climatic change make likelihood problematic to determine.

Scenario analysis is a process for systematically exploring the potential impacts, affecting the entity, of the range of plausible futures described under the climate-related scenarios. While acknowledging the uncertainty of these futures, this process allows entities to better understand how climate-related risks and opportunities may impact their strategy and business model over time. This means scenario analysis is a process that the entity *itself* must go through to explore different, plausible futures. Therefore, the board and management should be involved.

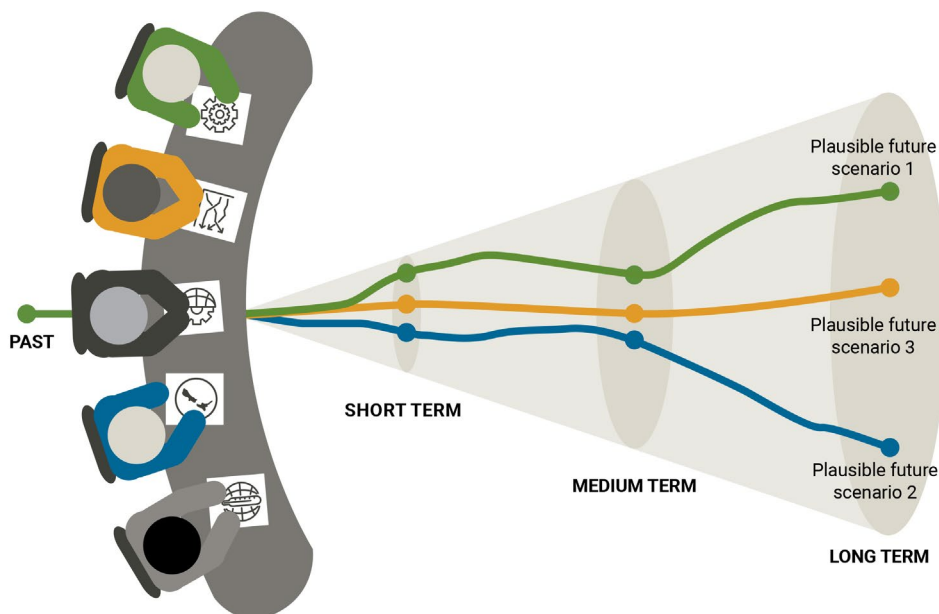


Figure 1: Scenario analysis is a process that an entity engages in (board and management) to help to explore its climate-related risks and opportunities, and develop a better understanding of the resilience of its business model and strategy in the face of the different challenges the scenarios present.

The purpose of scenario analysis under NZ CS 1

The purpose of scenario analysis is critical for entities to understand. One way to think about it is akin to the testing of a plane in a wind tunnel. These tests ensure the plane can withstand the impacts of challenging but plausible weather conditions. In the context of NZ CS 1, scenario analysis is intended to enhance the critical and strategic thinking of CREs in the face of challenging but plausible climate-related scenarios.

Why undertake scenario analysis?

Scenario analysis has been used in a range of ways for a range of purposes. This diversity of purposes is apparent upon reviewing different voluntary Task Force on Climate-related Financial Disclosures (TCFD) disclosures globally.

The purpose of scenario analysis under NZ CS 1 is to help entities to explore the climate-related risks and opportunities they may face and therefore better understand the resilience of their business model and strategy.

This exploratory analysis must include, at a minimum, a **1.5°C climate-related scenario, a 3°C or greater climate-related scenario, and a third climate-related scenario**. These scenarios should integrate elements of physical and transition risk and opportunity.

Getting started at the sector level

We encourage entities to get started with scenario analysis at a sector level (Figure 2). We have developed guidance on this, available [here](#), setting out the content of a climate-related scenario and how they can be developed.

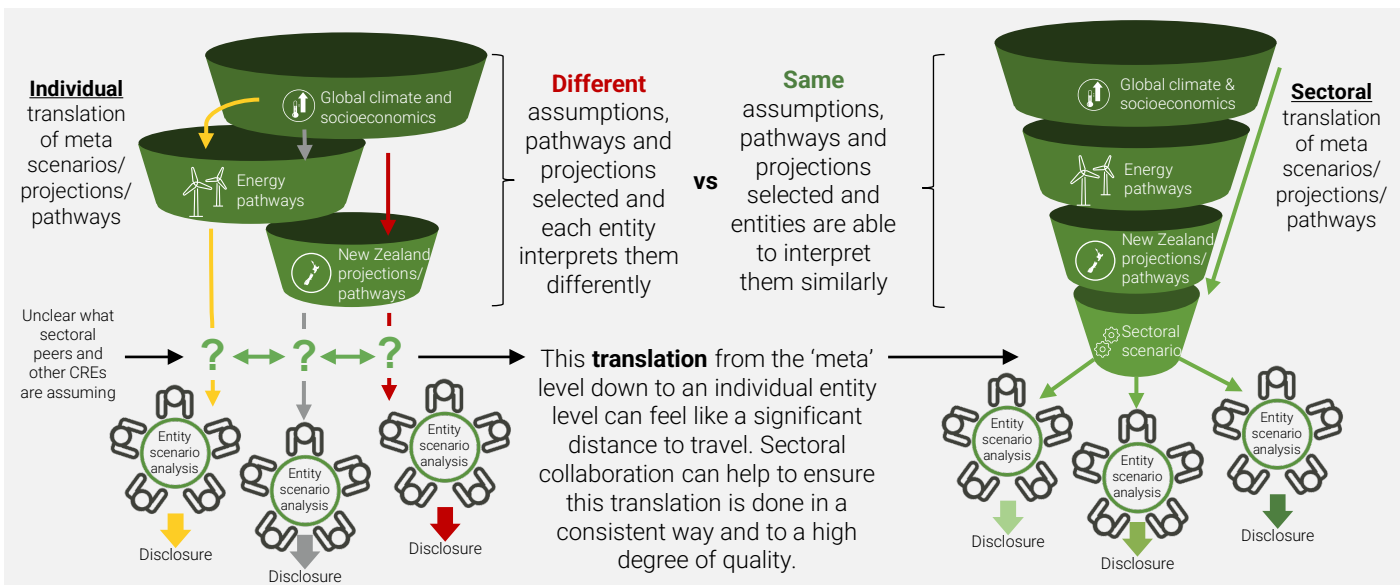


Figure 2: The role of sectoral scenarios in creating a shared scenario architecture for the use of CREs in New Zealand