

Strategy, and Metrics and Targets

Climate-related Disclosures

Aotearoa New Zealand Climate Standard 1

NZ CS 1

Consultation

Feedback closes 13 April 2022



March 2022

Consultation sessions



Strategy

- for listed debt and equity issuers, 28 March, 12.30pm
- for financial sector entities, 29 March, 12.30pm

Metrics and Targets

- for listed debt and equity issuers, 31 March, 12.30pm
- for financial sector entities, 1 April, 12.30pm

Today's session

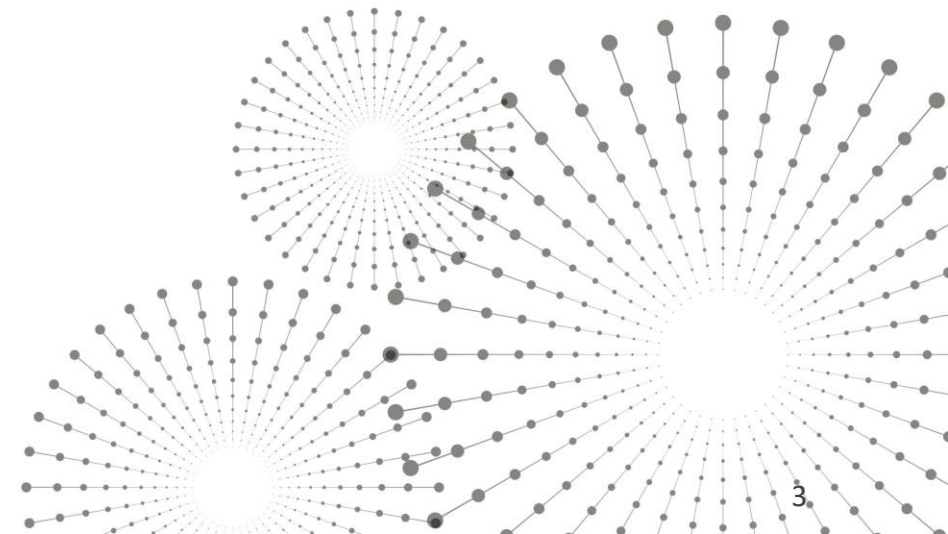


Overview of this presentation

1. Context

2. Proposed strategy disclosures

- Disclosures a) – d) including first time adoption provisions
- Key concepts
- Example disclosures
- Q+A as we go



Disclosure areas

Governance

Board oversight and management assessment of climate-related issues

Strategy

The impacts of climate-related risks and opportunities on the entity's business model, strategy and financial planning

Risk Management

How an entity's climate-related risks are identified, assessed, and managed and how those processes are integrated in existing risk management processes

Metrics and Targets

How an entity measures and manages its climate-related risks and opportunities



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed strategy disclosures

Jack Bisset, Policy Manager – Climate and Sustainability

jack.bisset@xrb.govt.nz

[LinkedIn](#)

What we drew on:

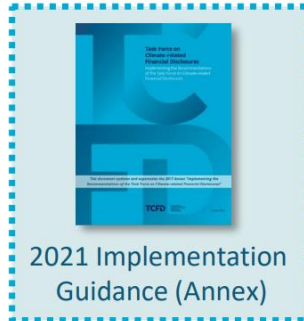
Strategy

Final Recommendations and Recommended Disclosures



2017 Report

Implementation Guidance

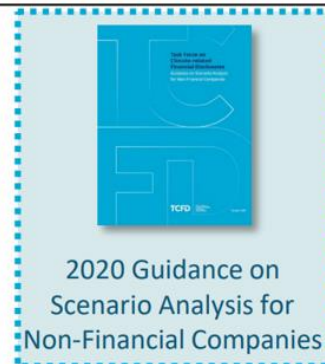


2021 Implementation Guidance (Annex)

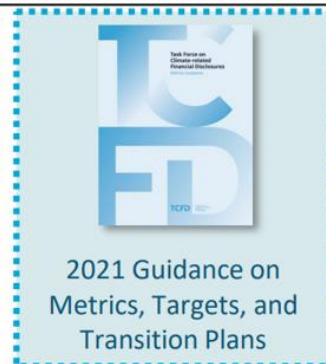
Additional Supporting Materials



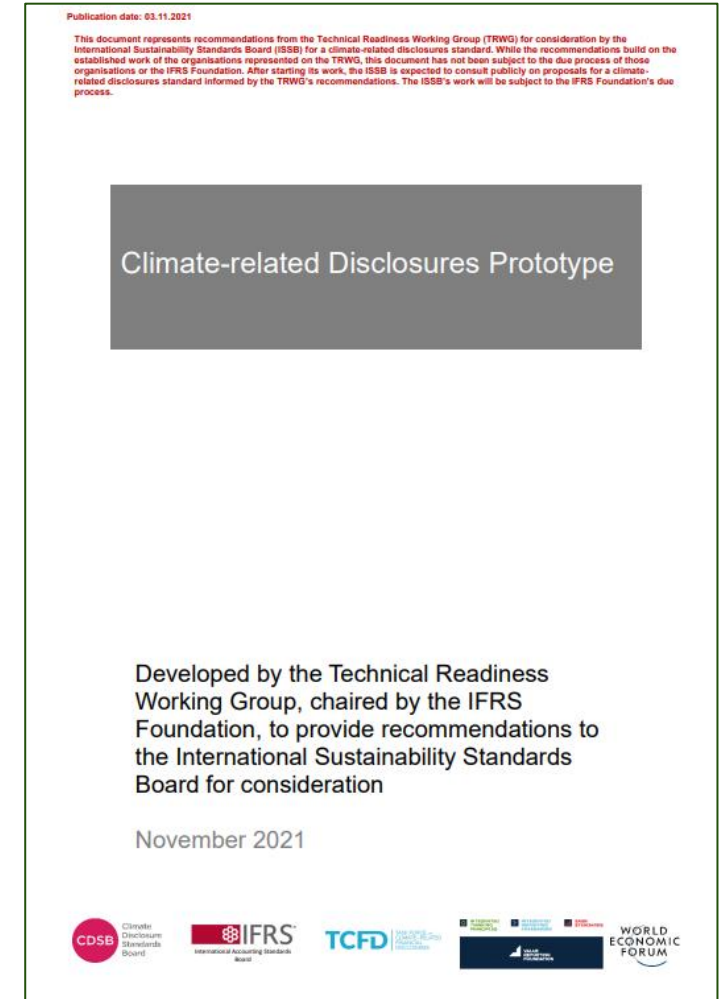
2017 Scenario Analysis Technical Supplement



2020 Guidance on Scenario Analysis for Non-Financial Companies



2021 Guidance on Metrics, Targets, and Transition Plans



assets.bbhub.io/company/sites/60/2022/02/TCFD-Strategy-Workshop.pdf

ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf

Strategy

Summary of proposed section

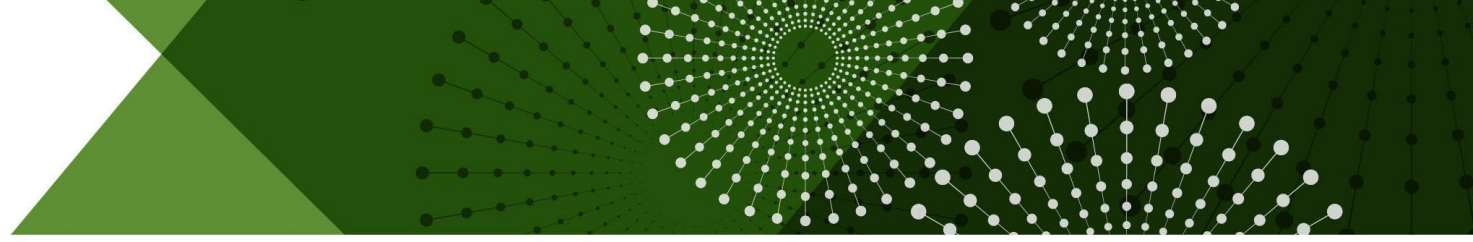
Objective

To enable primary users to understand the impacts of climate-related risks and opportunities on an entity's business model, strategy and financial planning over the short, medium, and long term, including actual and potential financial impacts.

Disclosures

- Climate-related risks and opportunities
- The impacts including financial impacts, transition and adaptation plans
- The resilience of its business model and strategy to different climate-related scenarios (including, at a minimum, a 1.5°C and a greater than 2°C scenario)
- The methodologies and assumptions relating to scenario analysis

Proposed section: Strategy



Objective

To enable primary users to understand the impacts of climate-related risks and opportunities on an entity's business model, strategy and financial planning over the short, medium, and long term, including actual and potential financial impacts.

How an entity has employed scenario analysis to evaluate the resilience of its business model and strategy is a key factor in realising this objective. Such information is used to inform expectations about the future performance of an entity.

Proposed section:

Strategy

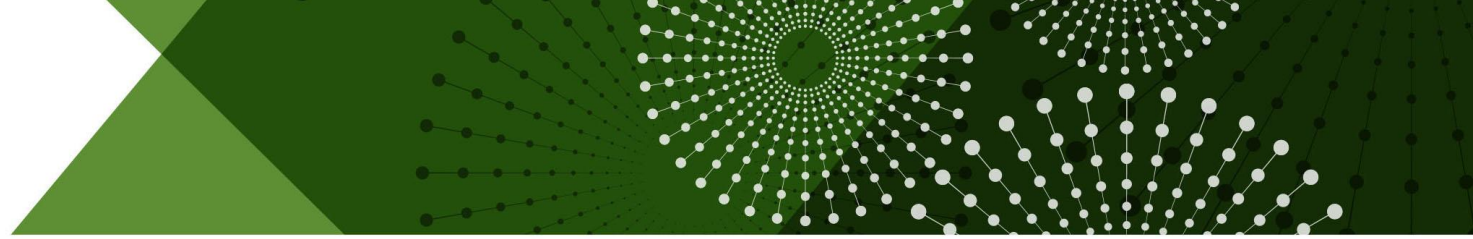
Strategy disclosure a)

Description of the climate-related risks and opportunities it has identified over the short, medium, and long term

Sub-disclosures include:

- How the entity defines short, medium and long term and how these definitions are linked to strategic planning horizons and capital deployment plans
- A description of the time horizon over which each could reasonably be expected to have a financial impact on the entity
- Whether the risks and opportunities identified are physical or transition in nature, and where relevant, their sector and/or geography

Proposed section: Strategy



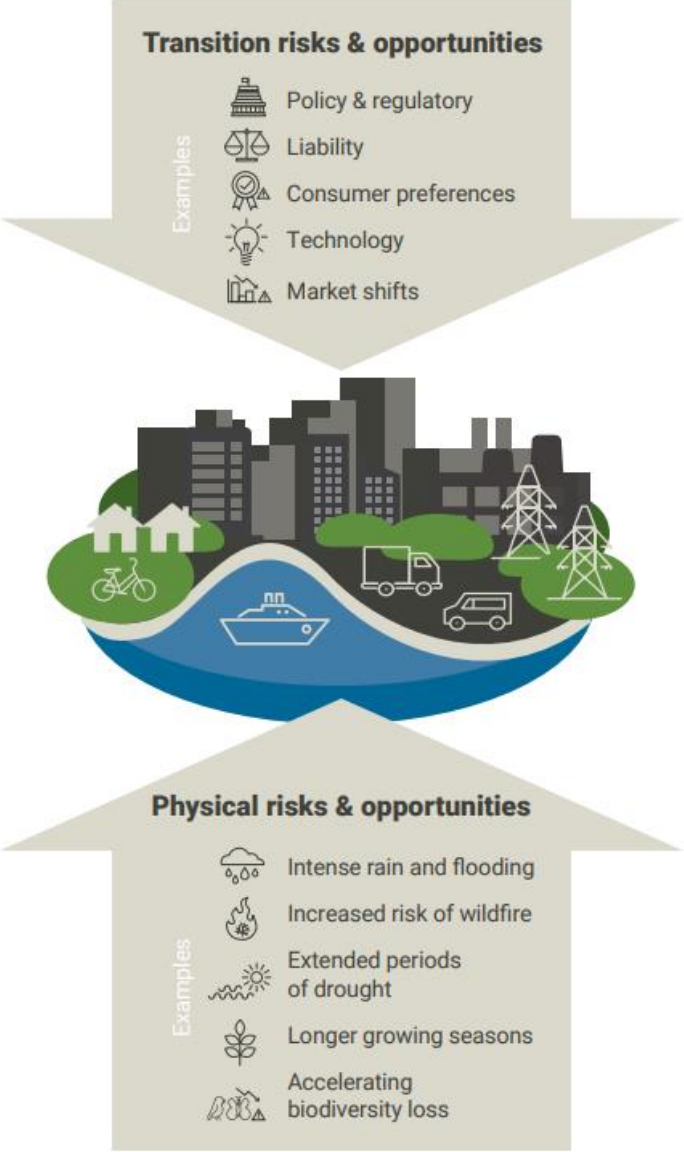
Strategy disclosure a) – Relevant first time adoption provisions

Sub-disclosures include:

- How the entity defines short, medium and long term and how these definitions are linked to strategic planning horizons and capital deployment plans
- A description of the time horizon over which each could reasonably be expected to have a financial impact on the entity
- Whether the risks and opportunities identified are physical or transition in nature, and where relevant, their sector and/or geography

In the **first climate statement**: no further information required by the standard.

What are climate-related risks and opportunities?



Example disclosures – Zespri

PHYSICAL RISKS

Climate Variable	Potential Impact	Projected change in 2050		Risk Rating
		2°C scenario	4°C scenario	
Average temperatures	Rising average temperatures may increase the risk of pests and pathogens becoming established in primary growing regions.	~0.9°C	~1.1°C	High
Minimum temperatures	A rise in minimum spring temperature may prevent consistent bud-break and king flower production in primary growing regions.	~1°C	~1.25°C	High
Maximum temperatures	A rise in summer maximum temperatures may increase energy costs in post-harvest sorting and distribution centres.	~1°C		Moderate
Number of hot days (>25°C)	An increase in the number of hot days in primary growing regions may increase the risk of heat stress among orchard workers.	~75% increase	~95% increase	Moderate
Average Rainfall	Kiwifruit vine water demand may increase with rising temperatures, impeding on fruit development in water-deprived areas.	Substantial regional and seasonal variation.		Moderate
Drought	An increase in the severity and frequency of droughts, especially in already dry areas, may impede on fruit development.	100mm increase in PED ³		Moderate
Number of dry days (<1mm / day rainfall)	An increase in the number of dry days may marginally alter the risk of drought and water stress in primary growing areas.	0-5% Increase in dry days		Low
Extreme rainfall events	An increase in extreme rainfall events may marginally alter the risk of harvest losses, soil erosion, flood damage and diminish soil productivity.	0-5% increase in the magnitude of a 99th percentile rainfall event		Low
Extreme wind speeds	An increase in extreme wind speeds may see more wind damaged fruit on the vine.	0-2.5% increase in the magnitude of a 99th percentile daily mean wind speed		Low

Figure 5. Zespri physical climate risk scenario analysis and risk ratings for New Zealand growing regions.

TRANSITIONAL RISKS

Moderate (2°C) emissions scenario	Risk Rating	High (4°C) emissions scenario	Risk Rating
Environmental regulation			
Under a moderate emissions scenario, the short-term financial impacts of regulation diminish over time and are ultimately offset by reduced production costs and enhanced market access.	High	Under a high emissions scenario environmental regulation is rolled back to foster primary sector growth in the face of climate deterioration.	Low
Social licence to operate & consumer aversion to unsustainable products			
Under a moderate emissions scenario, the short-term financial impacts of regulation diminish over time and are ultimately offset by reduced production costs and enhanced market access.	Low	Under the high emissions scenario social licence steadily erodes over the short to medium term to become a substantial problem.	High

Figure 6. Zespri's priority transitional risks & potential impacts.

Example disclosures – Zespri

OPPORTUNITIES

- Warmer temperatures and longer growing seasons in some regions may result in higher quality fruit (e.g. increased dry matter) and yield.
- Warmer temperatures may make existing sites with sub-optimal growing conditions (e.g. colder) more favourable and alternative growing locations may become more suited to production.

PHYSICAL

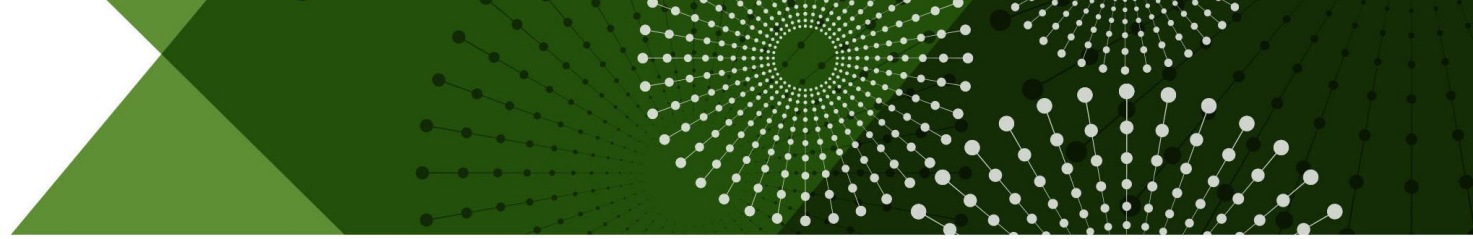
TRANSITIONAL

OPPORTUNITIES

Consumers, the public, politicians, regulators and investors are increasingly expecting business to play its part in reducing the impact on the climate. The kiwifruit industry will need to work together to address the challenges as economies around the world decarbonise. While this includes increasing climate regulations, there will also be opportunities as consumer preferences for healthy, low impact products increases.

For example carbon labelling is emerging in Zespri's global markets and will start to set the standards that New Zealand exporters are expected to meet. Such labelling will provide consumers with information about the level of product embodied carbon emissions. It could also provide consumers with transparency to make informed shopping decisions.

By taking a leadership approach in its response to climate change, by continuing to embed sustainability as a core part of its business, there is an opportunity for Zespri to continue to build a brand that is recognisable for what it stands for as much as for the quality of its fruit.



Questions

Proposed section:

Strategy

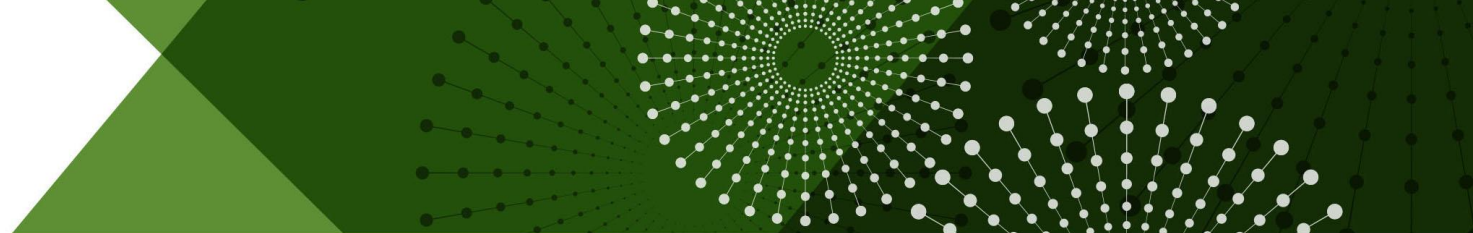
Strategy disclosure b)

Description of the impact of climate-related risks and opportunities on its business model, strategy and financial planning

Sub-disclosures include:

- A description of the business model and strategy
- Actual impacts on business model, strategy and financial planning
- Actual financial impacts on financial position, financial performance and cash flows
- How climate-related risks and opportunities serve as an input to financial planning
- Transition and adaptation plan aspects of its strategy

Proposed section: Strategy



Strategy disclosure b) – Relevant first time adoption provisions

Sub-disclosures include:

- A description of the business model and strategy
- Actual impacts on business model, strategy and financial planning
- Actual financial impacts on financial position, financial performance and cash flows
- How climate-related risks and opportunities serve as an input to financial planning
- Transition and adaptation plan aspects of its strategy

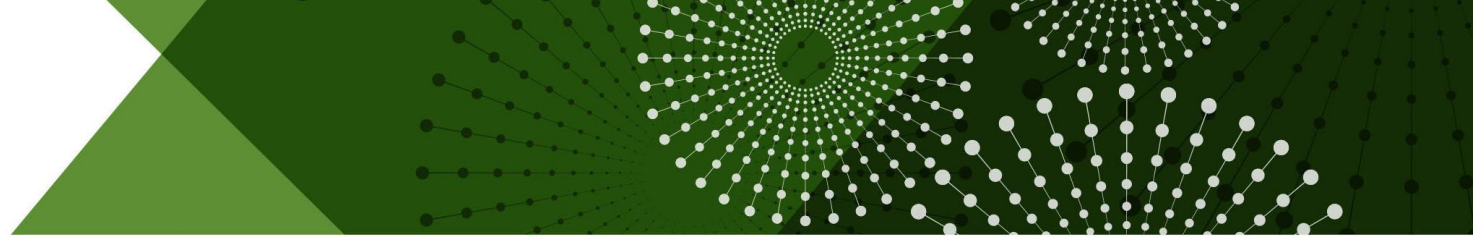
In the **first climate statement**: disclose qualitative information only in relation to both actual and potential financial impacts.

From the **second climate statement onwards**: disclose quantitative information.

In the **first climate statement**: disclose progress towards developing a transition plan.

From the **second climate statement onwards**: disclose the transition plan.

Proposed section: Strategy



Strategy disclosure b) – Relevant first time adoption provisions

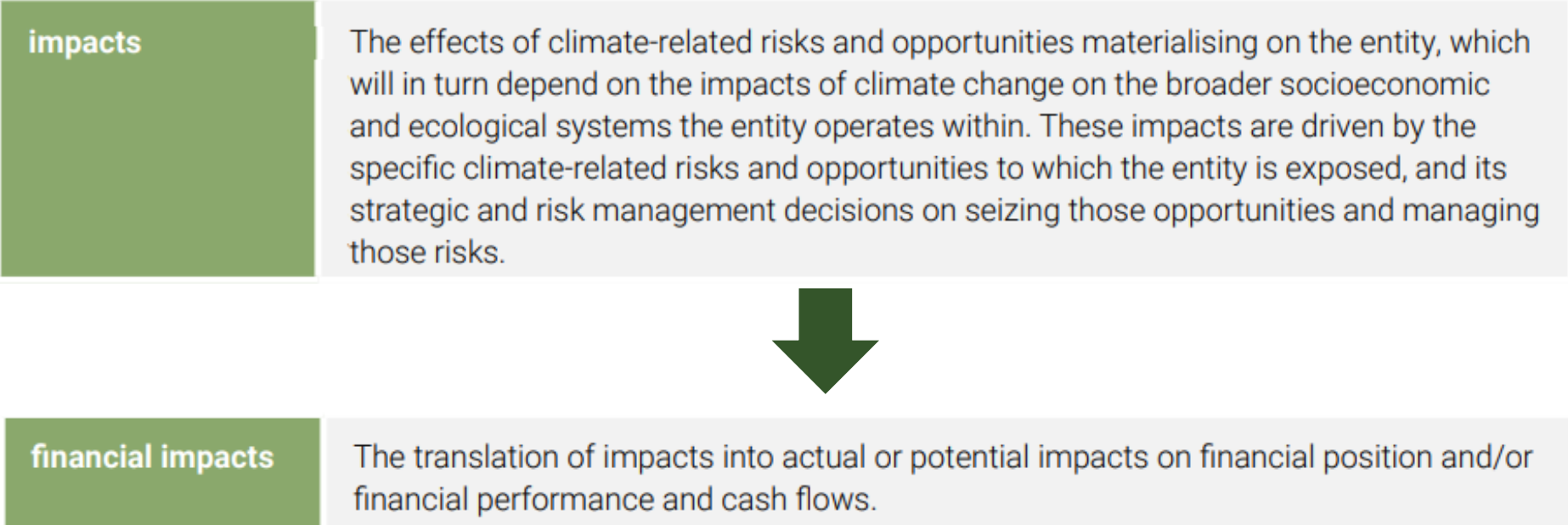
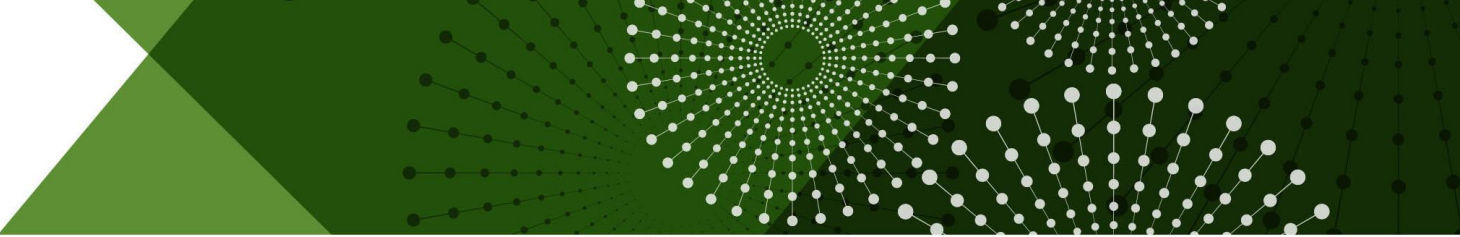
Sub-disclosures include:

- A description of the business model and strategy
- Time horizon over which
- Actual impacts on business model, strategy and financial planning
- Actual financial impacts on financial position, financial performance and cash flows
- How climate-related risks and opportunities serve as an input to financial planning
- Transition and adaptation plan aspects of its strategy

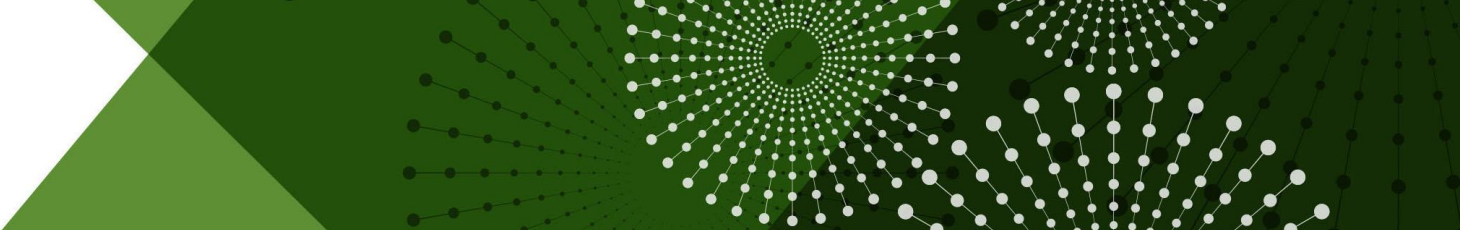
In the **first two climate statements:** disclose progress towards developing an adaptation plan.


From the **third climate statement onwards:** disclose the adaptation plan.

What are impacts and financial impacts?



Example disclosures – Meridian Energy



Risk drivers	 Extreme rainfall in hydro catchments
Type	Physical
Scale	Medium
Likelihood	About as likely as not
Timeframe	Long-term (30 years)
Impacts	Increasing intensity of extreme rainfall events in hydro catchments.
Financial implications	Increase in intensity of extreme rainfall events may require the lowering of dam water levels (reducing assets' generating capacity) and/or the strengthening of dam structures.
Quantification	-\$7 to-\$11 million per annum
Methodology	Estimated potential financial impact is an annualised figure over a 30 year time horizon of estimated civil construction costs and negative revenue impacts.
Management response	Probable Maximum Flood values are reviewed once every ten years to incorporate climate change, or more frequently if warranted circumstances arise.

'Risk'

'Physical'

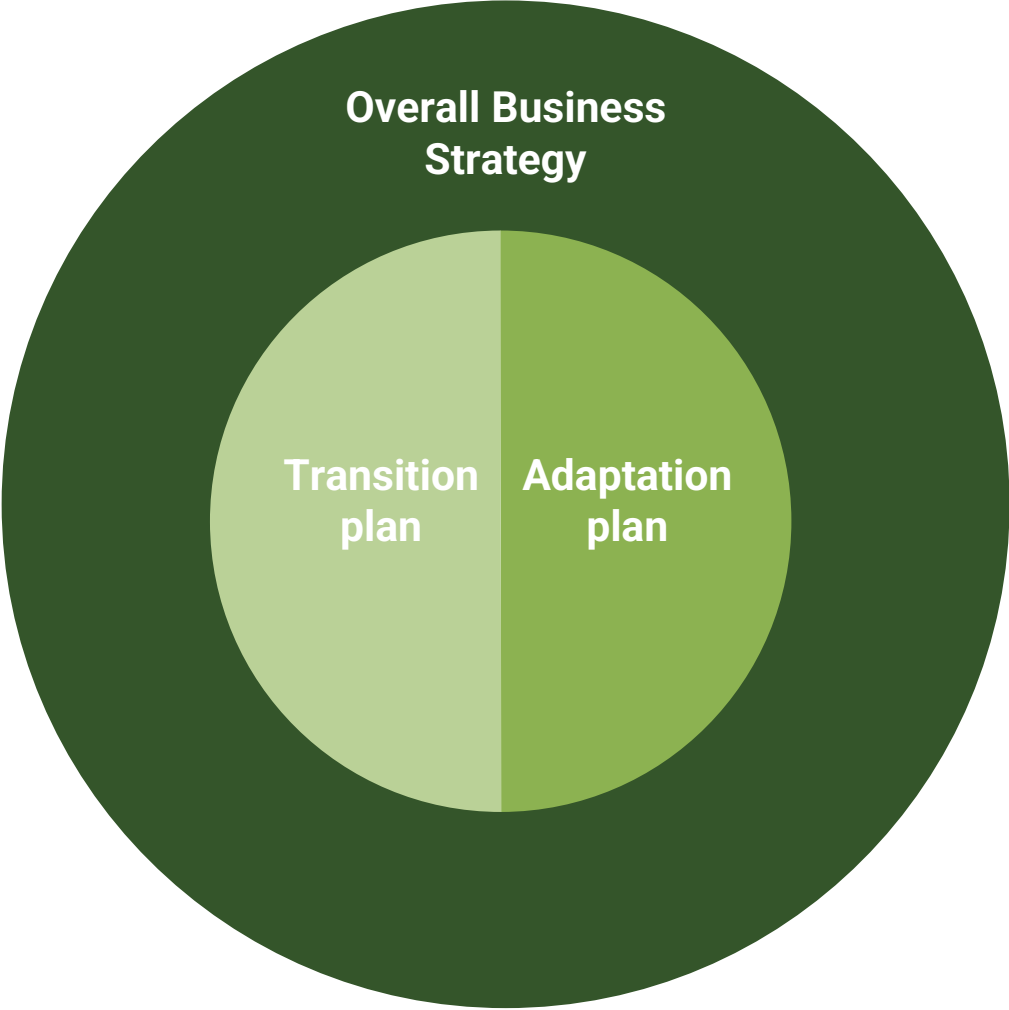
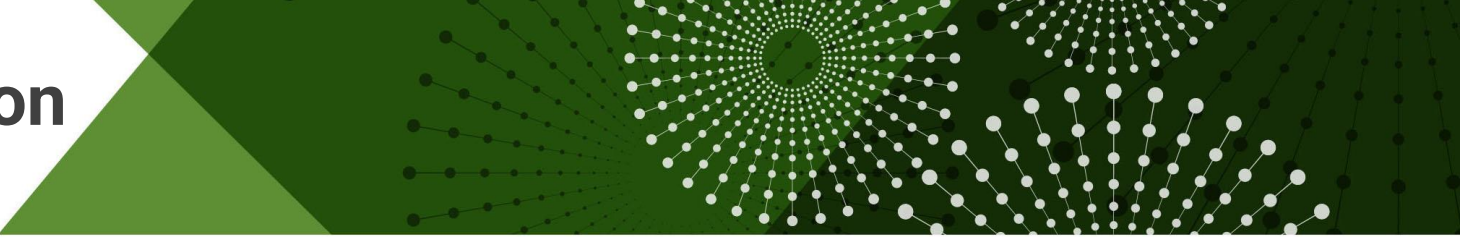
'Time horizon'

'Impacts'

'Financial impacts'

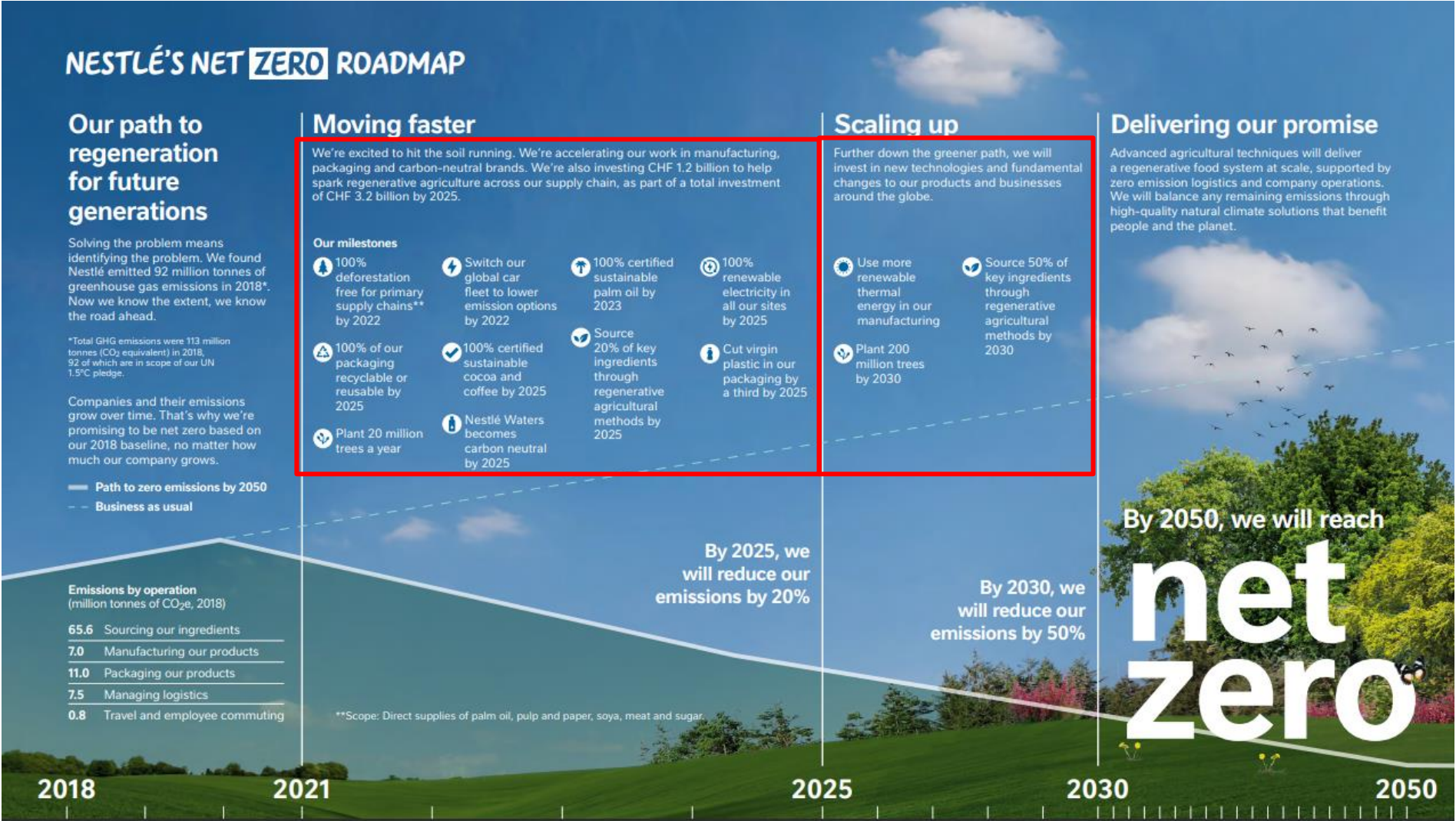
meridianenergy.co.nz/assets/Sustainability/FY21-Meridian-Climate-Change-Disclosure-Report-TCFD-FINAL.pdf

What are transition and adaptation plans?

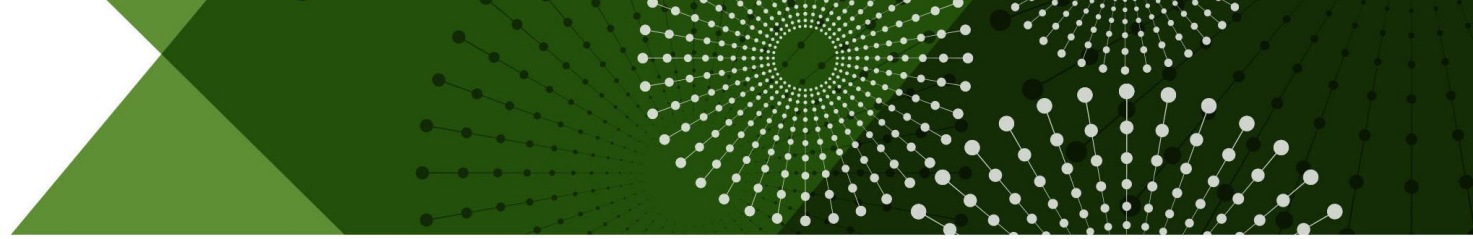


(Adapted from TCFD guidance)

Example disclosures – Nestlé transition plan



[nestle-net-zero-roadmap-en.pdf](https://www.nestle.com/press/2021/09/2021-09-01-nestle-net-zero-roadmap-en.pdf)



Questions

Proposed section:

Strategy

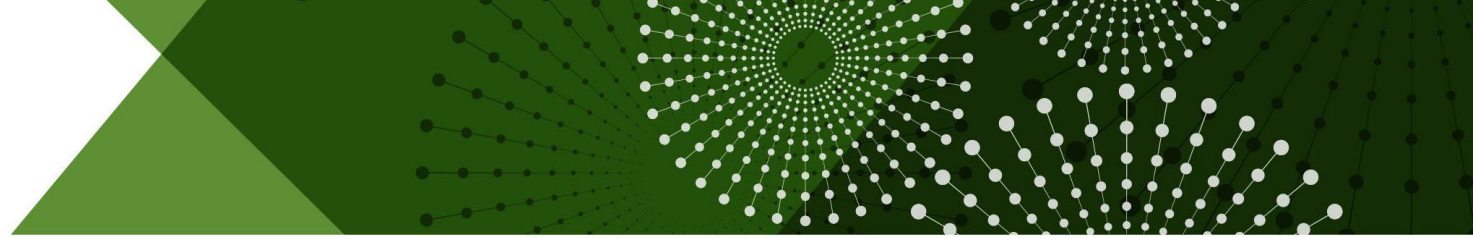
Strategy disclosure c)

Description of the resilience of its business model and strategy to different climate-related scenarios

Sub-disclosures include:

- Potential impacts on business model and strategy
- How its business model and strategy might change to address those
- Potential financial impacts on financial position, financial performance and cash flows
- Description of scenario analysis undertaken, using at least a 1.5°C and a greater than 2°C scenario

Proposed section: Strategy



Strategy disclosure c) – Relevant first time adoption provisions

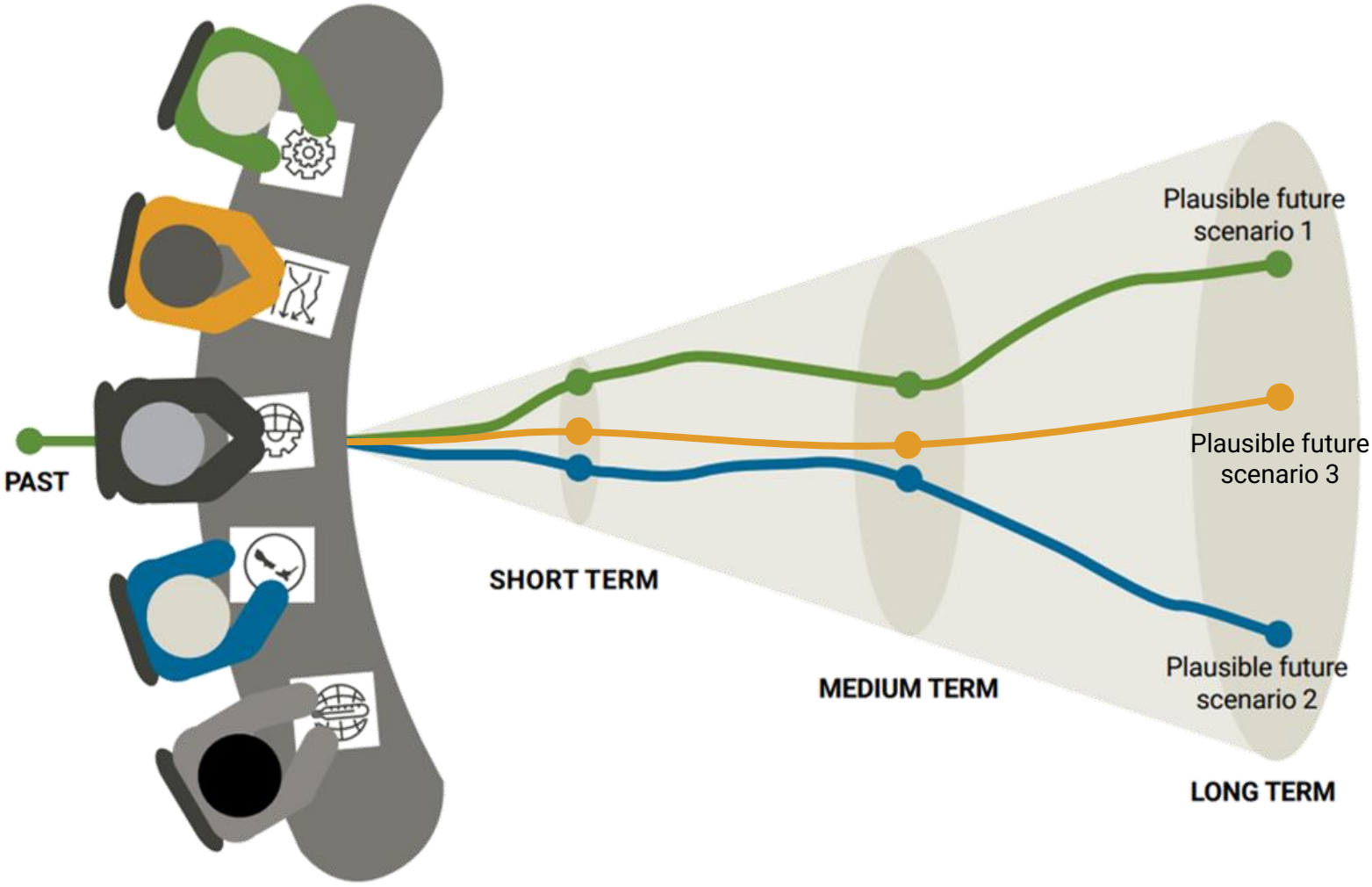
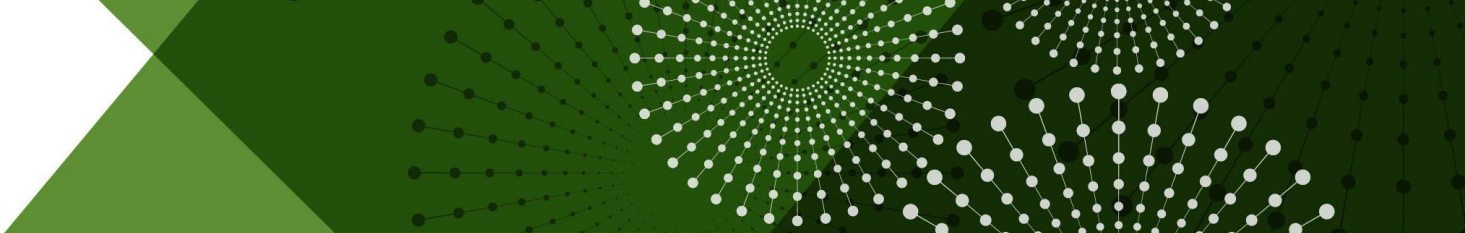
Sub-disclosures include:

- Potential impacts on business model and strategy
- How its business model and strategy might change to address those
- Potential financial impacts on financial position, financial performance and cash flows
- Description of scenario analysis undertaken, using at least a 1.5°C and a greater than 2°C scenario

In the **first climate statement**: disclose qualitative information only in relation to both actual and potential financial impacts.

From the **second climate statement onwards**: disclose quantitative information.

Scenario analysis is a tool to enhance strategic thinking



Shared architecture and assumptions: Indicative only

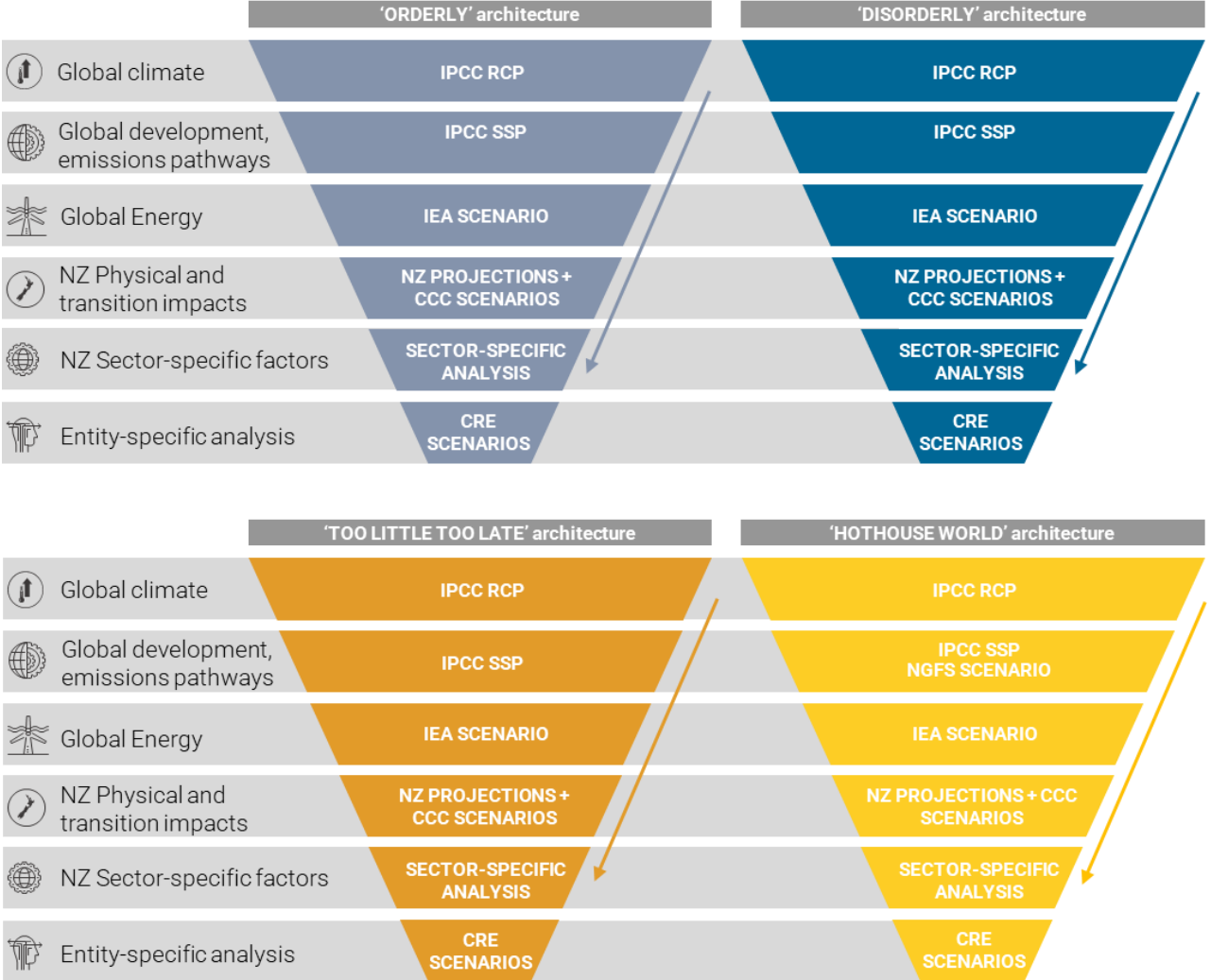
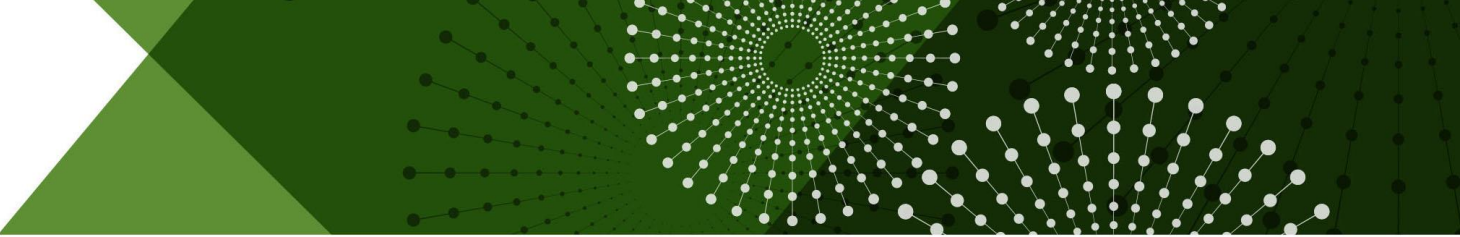


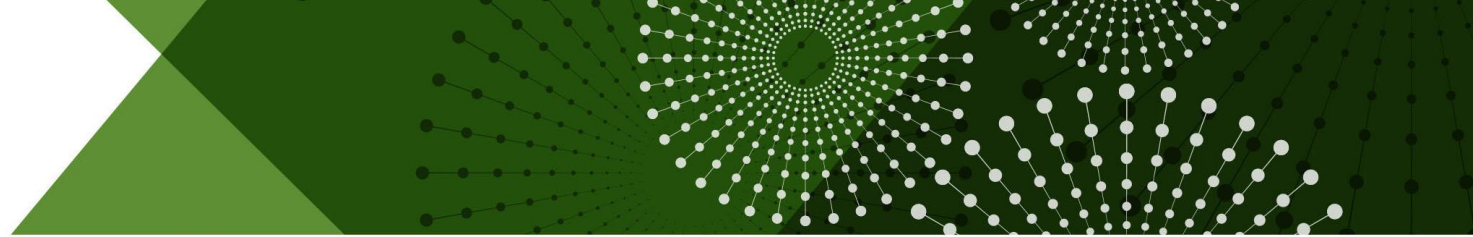
Figure 9: Coherent sets of projections, pathways and global scenarios can form a shared architecture for sectoral scenarios. These provide high-level data which are plausible, coherent and can be used to paint a picture of the world an entity might find itself in. Sectors can use these data to set out the boundaries of their own scenarios, or sense-check any quantification or modelling at sector-scale they may choose to commission.

Update: Indicative status of various sectors' scenario work



SECTOR	Planning	Stakeholder engagement	Analysis underway	Scenarios complete
Marine				
General insurance				
Tourism				
Banking				
Materials & buildings				
Energy				
Agriculture				
Transport				
Fund Managers & CFIs				
Health care, health & life insurance				
Information media & telecoms				
HR, education and retail				

Concerns about disclosing confidential information



Strategy c): Concerns about Disclosing Confidential Information

The Task Force has heard from preparers over the years that one of the top concerns related to the Strategy recommendation is disclosing scenario analysis assumptions, as such assumptions may include confidential business information

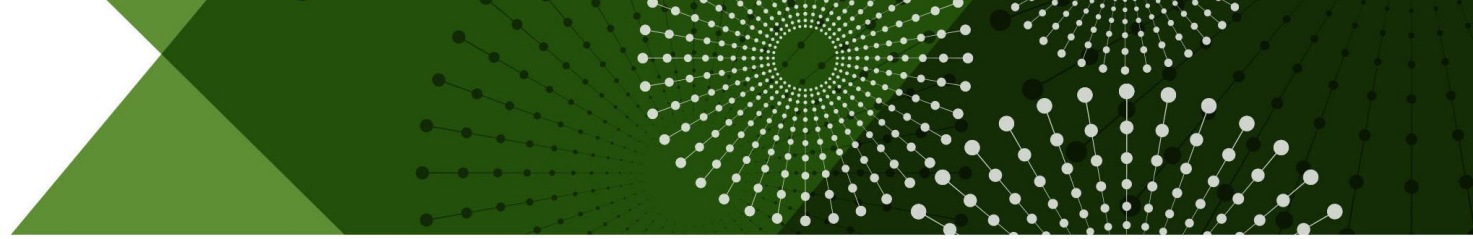
Companies' concern about disclosing certain confidential information related to their scenario analysis assumptions or resilience of their strategies was addressed in the 2020 status report.¹

When evaluating whether particular aspects of a company's intended disclosure around scenario analysis assumptions or the resilience of its strategy contain confidential business information, the company should consider the following:

- whether the information **provides the company with an economic benefit** that translates into a **competitive advantage** because the information is unknown to its competitors
- whether making such information public may **cause a considerable economic loss for the company**.

In situations where a company is not certain information related to its scenario analysis assumptions or the resilience of its strategy contains confidential business information, the **Task Force encourages the company to consider a stepwise approach to disclosure** — rather than decide not to disclose. For example, a company might start by disclosing broader, qualitative information and move to more specific, quantitative data and information over time.

1. This topic was also covered in the Guidance on Scenario Analysis for Non-Financial Companies Sources
TCFD, [2019 Status Report](#), 2019, p.49.
TCFD, [2020 Status Report](#), 2020
TCFD, [Guidance on Scenario Analysis for Non-Financial Companies](#), 2020



Questions

Proposed section:

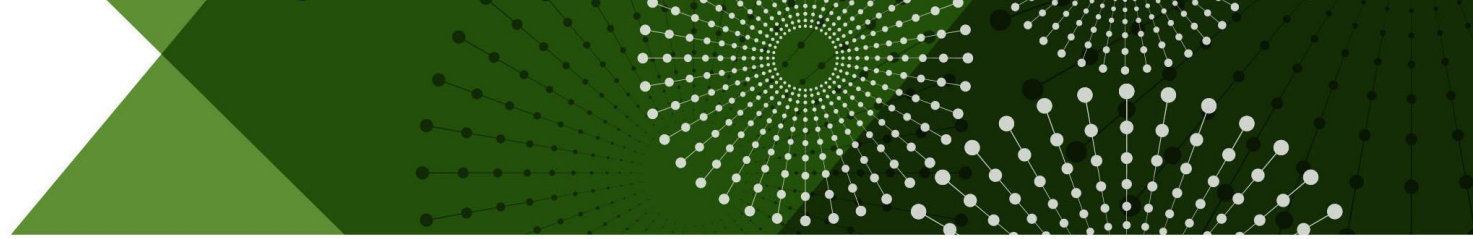
Strategy

Strategy disclosure d)

The methodologies and assumptions underlying the climate-related scenarios used, and the scenario analysis process employed

Sub-disclosures include:

- Brief description of each scenario narrative
- Description of various pathways in each scenario and key assumptions
- Sources of data used to construct each scenario
- Governance processes used to oversee and manage the scenario analysis process, including the role of board and management



Questions



Over to you...

We are keen to hear your feedback and this can be provided formally and informally.

The full consultation document can be found here:

<https://www.xrb.govt.nz/standards/climate-related-disclosures/consultation-and-engagement/strategy-and-targets-and-metrics>

To help you wrap your head around the information in this consultation document, we're hosting a series of Deep Dive events between 28 March – 1 April. Register to attend [here](#)

To provide feedback you can:

Email us
Climate@xrb.govt.nz

Submit via
www.xrb.govt.nz

Comment on our
[LinkedIn page](#)

The consultation closes 13 April 2022

