

Strategy, and Metrics and Targets

Climate-related Disclosures

Aotearoa New Zealand Climate Standard 1

NZ CS 1

Consultation

Feedback closes 13 April 2022

Four horizontal bars of different colors: light green, dark grey, blue, and orange.

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

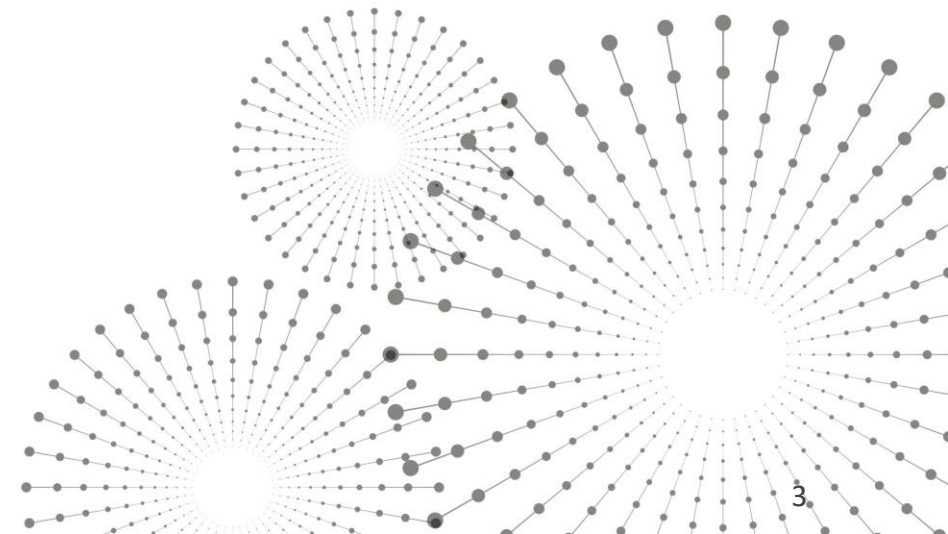


Overview of this presentation

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:

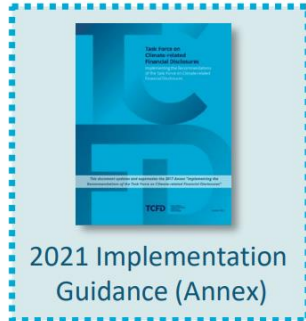
Strategy

Final Recommendations and Recommended Disclosures



2017 Report

Implementation Guidance

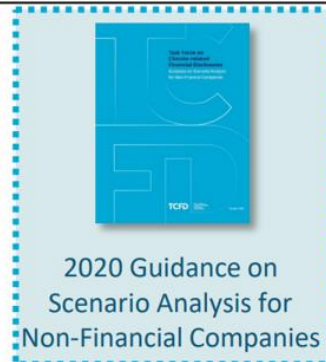


2021 Implementation Guidance (Annex)

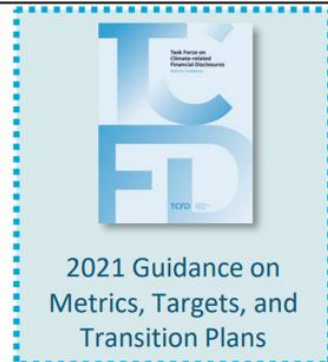
Additional Supporting Materials



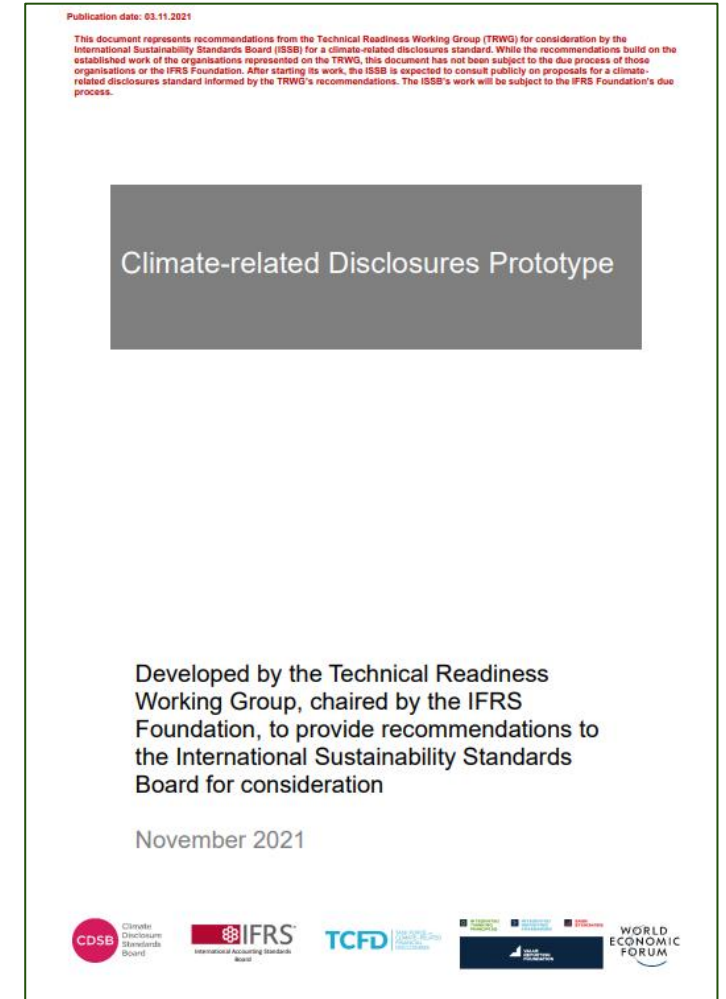
2017 Scenario Analysis Technical Supplement



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

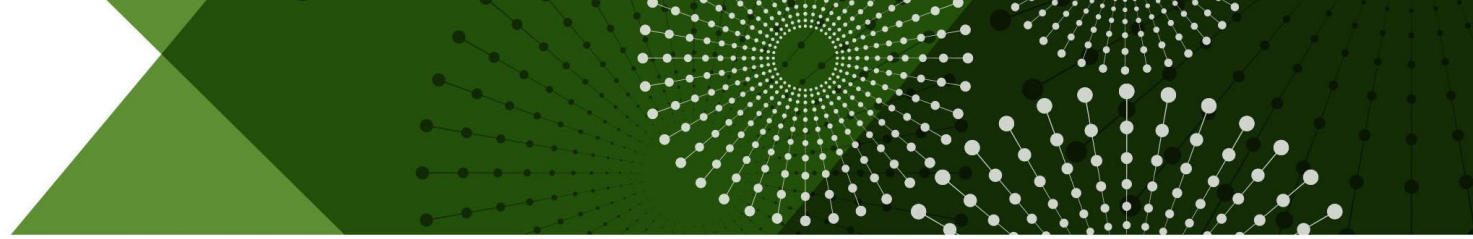
Strategy disclosure a)

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



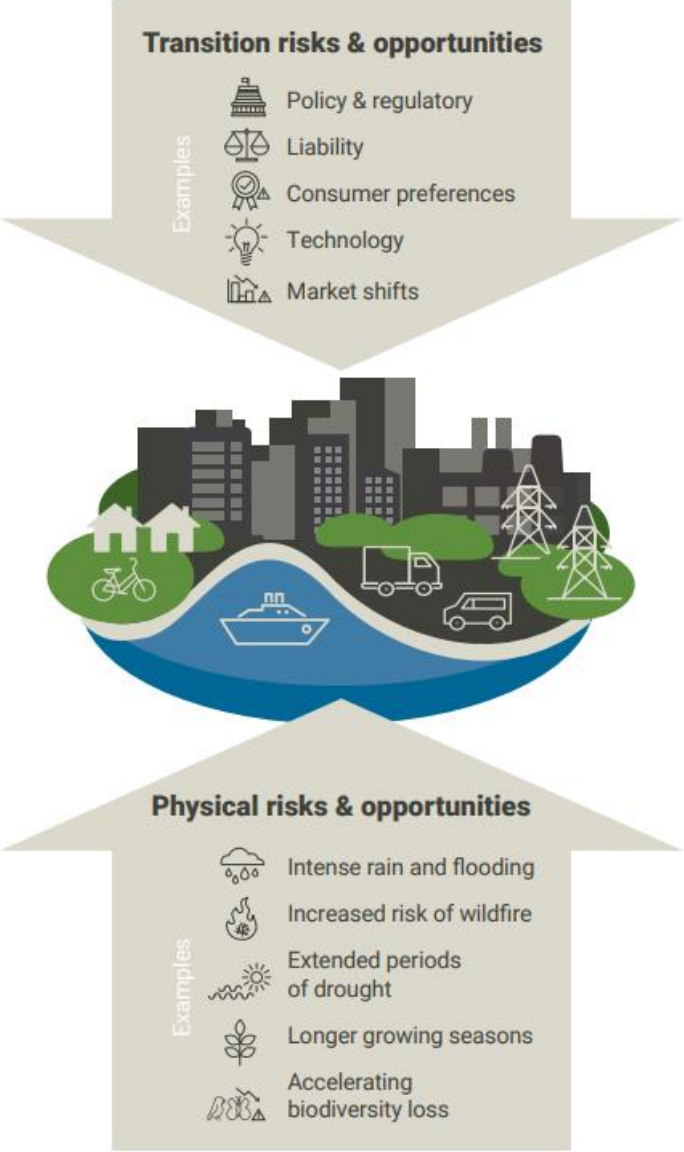
Strategy disclosure a) – Relevant first time adoption provisions

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 – Schroders (Asset manager)

Strategy

The decarbonisation of the global economy as we transition towards net zero poses a number of risks and opportunities to our business and those that we invest in. We consider these over the following time horizons:

		0-5 years: Short term	5-10 years: Medium term	10 years +: Long term
Risk	Description	Timeframe		Impact
Market	Changing client behaviour impacting demand for our products		Medium term	Decreased revenue
Physical	The impact on physical operations of extreme weather events or changes in temperature		Long term	Increased capital expenditure
Regulatory and legal	Changes to current/emerging climate-related regulation that impact how companies operate		Long term	Decreased profitability
Reputation	Perception of not having responded appropriately to climate challenges		Medium term	Decreased revenue
Technology	The need to keep up with technological advancements to examine and manage climate risks and opportunities		Medium term	Impact on fund performance and revenue
Opportunity	Description	Timeframe		Impact
Products and services	Evolution of product range in response to opportunities		Medium term	Increased revenue
Market	Adapting investment proposition to reflect client preferences		Medium term	Better competitive position and increased revenue
Resilience	Providing products to manage the impacts of climate change	Short term		Increased revenues
Energy source	Use of new technology and lower emission sources to reduce our environmental impact		Medium term	Reduced indirect costs



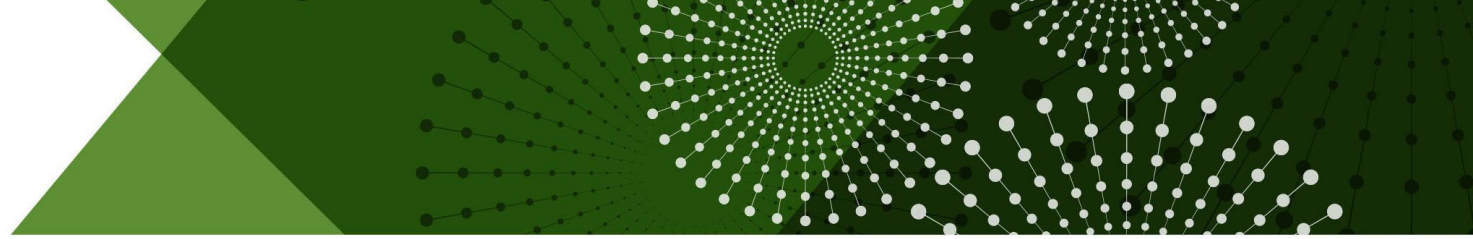
7 Climate change risk



A failure to understand the pricing of assets affected by climate change due to declining cash flows from industries or a lower demand for impacted assets. This may lead to poor investment decisions, more volatile pricing as asset prices adjust to reflect the increasing regulation of carbon emissions and a failure to offer climate positive products impacting our performance, brand and reputation.

We have developed a range of proprietary tools to better understand the impacts of climate change on the portfolios we manage including a physical risk model and a transition risk model.

We assess our corporate exposure to physical climate change risks and that of our supply chain and we actively monitor our emissions and have adopted targets to reduce our carbon footprint.



Questions

Proposed section:

Strategy

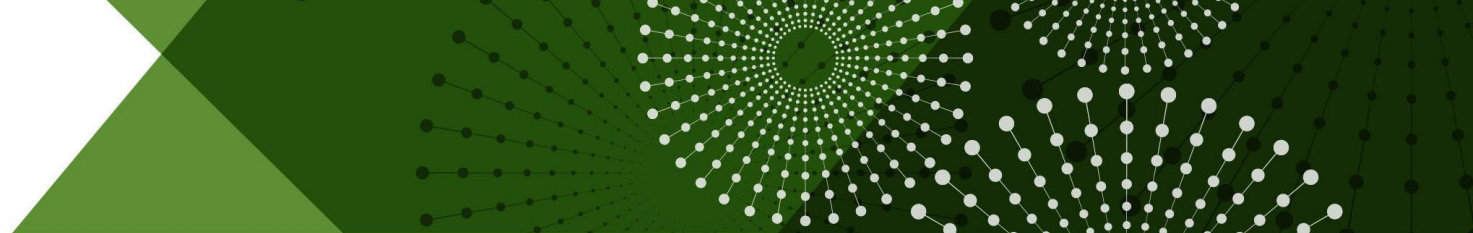
Strategy disclosure b)

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

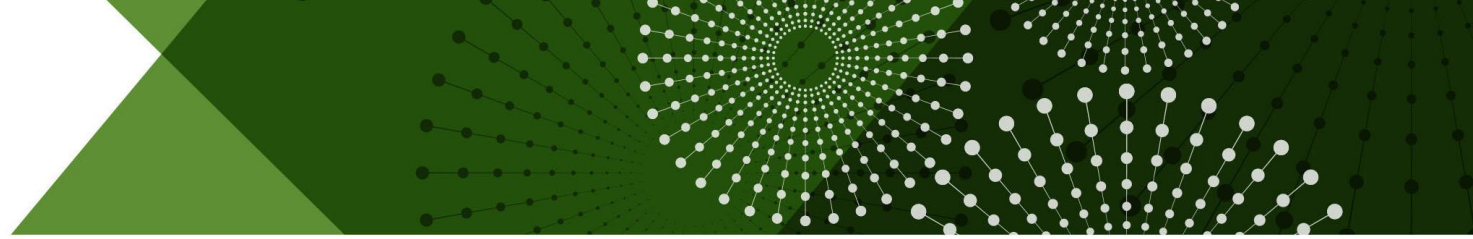
In the **first climate statement**: disclose qualitative information only in relation to both actual and potential financial impacts.

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

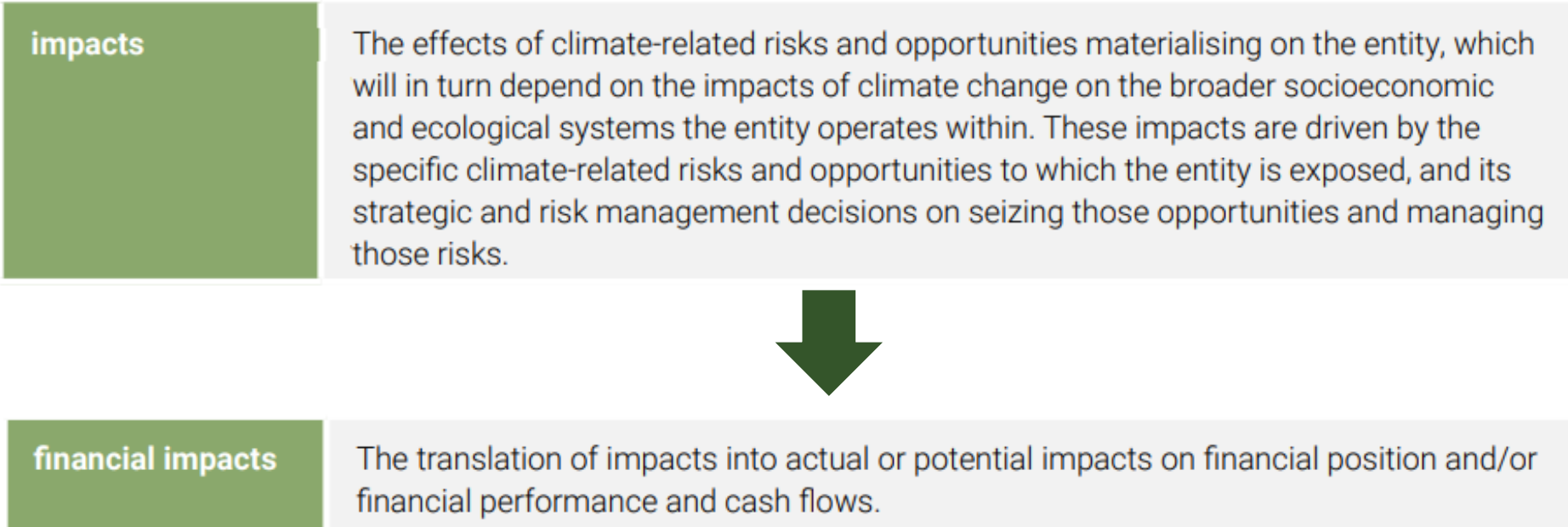
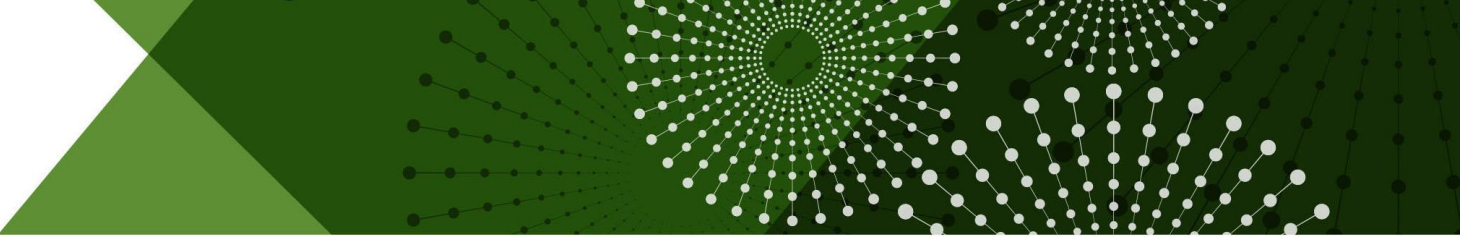
Sub-disclosures include:

- 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

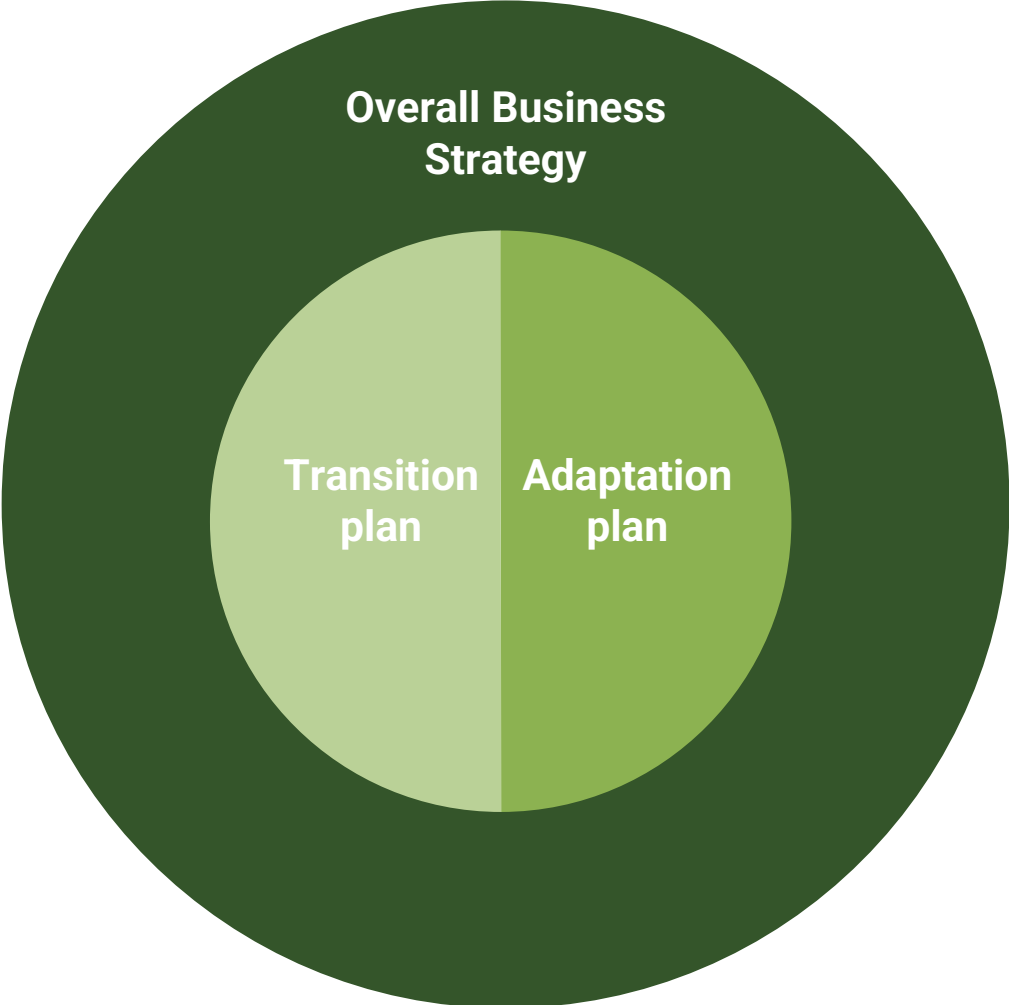
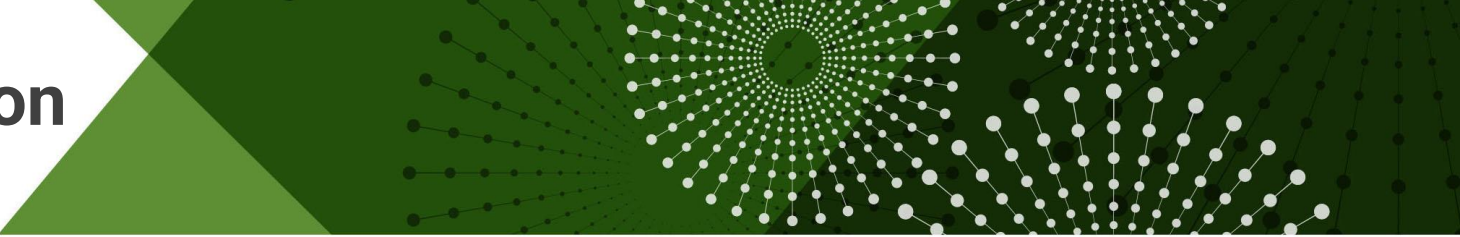
In the **first two climate statements:** disclose progress towards developing an adaptation plan.

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

What are impacts and financial impacts?

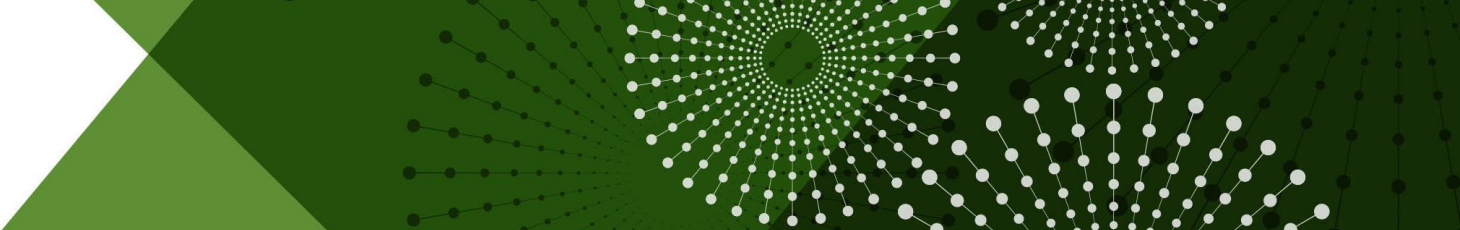


What are transition and adaptation plans?

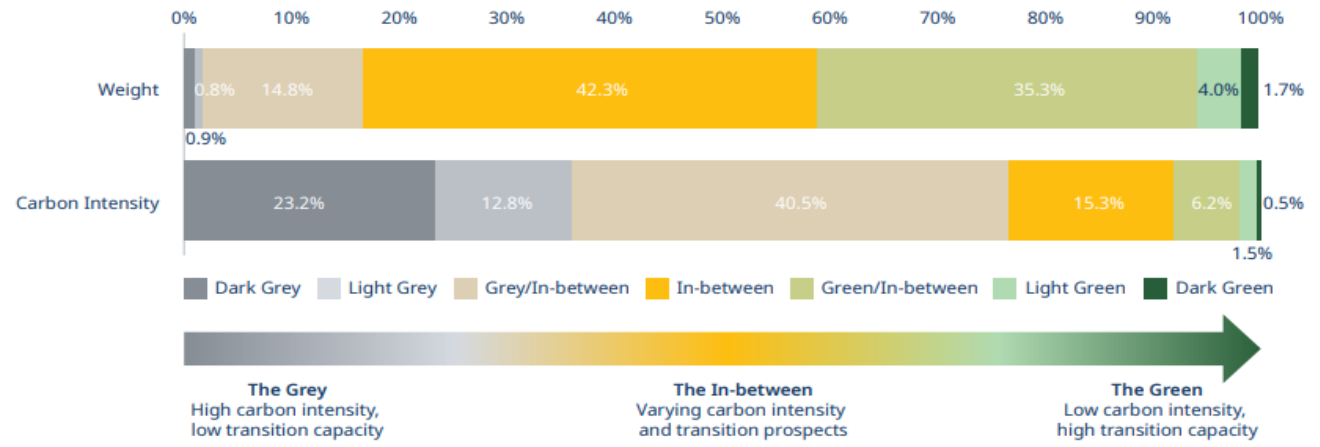


(Adapted from TCFD guidance)

Example – Mercer NZ Transition plan

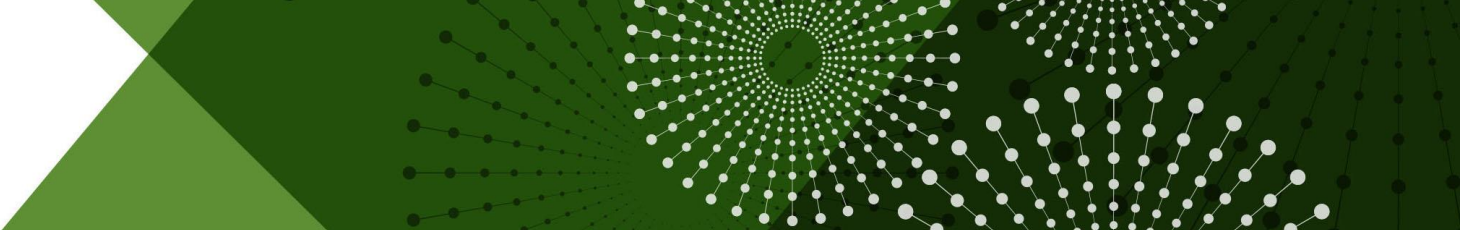


Transition assessment: Example diversified portfolio

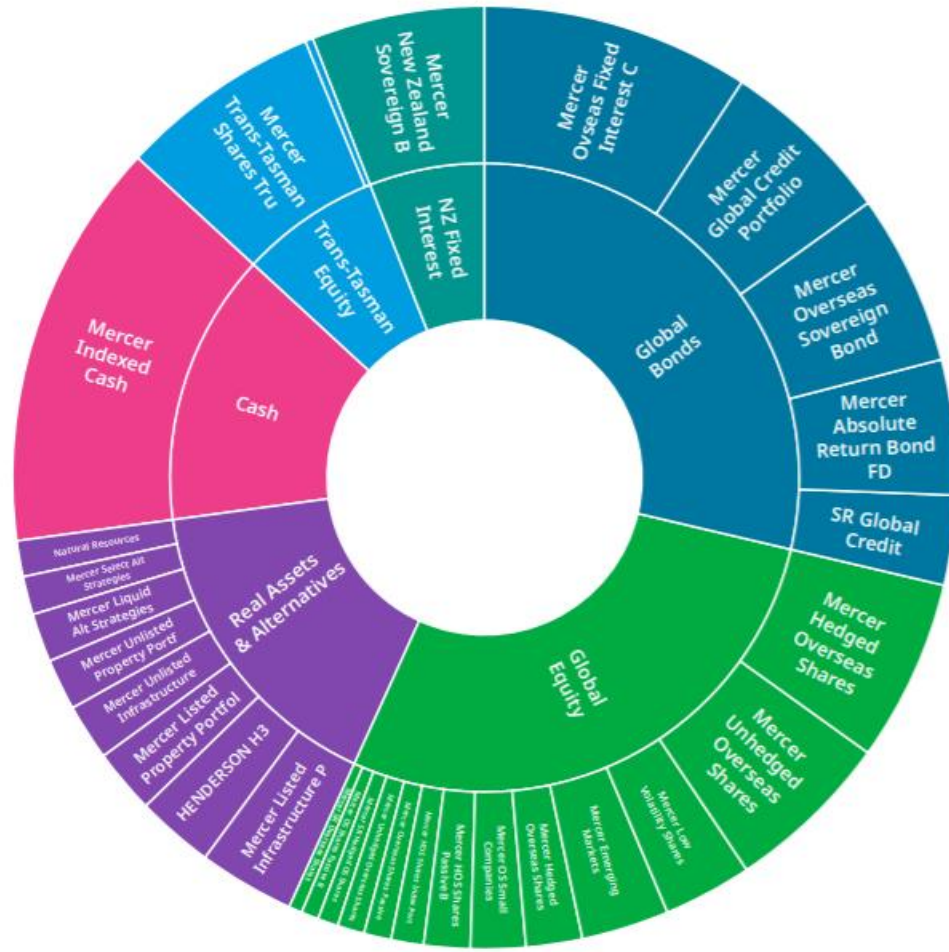


Source: Mercer, with underlying metrics from MSCI ESG Research and ISS

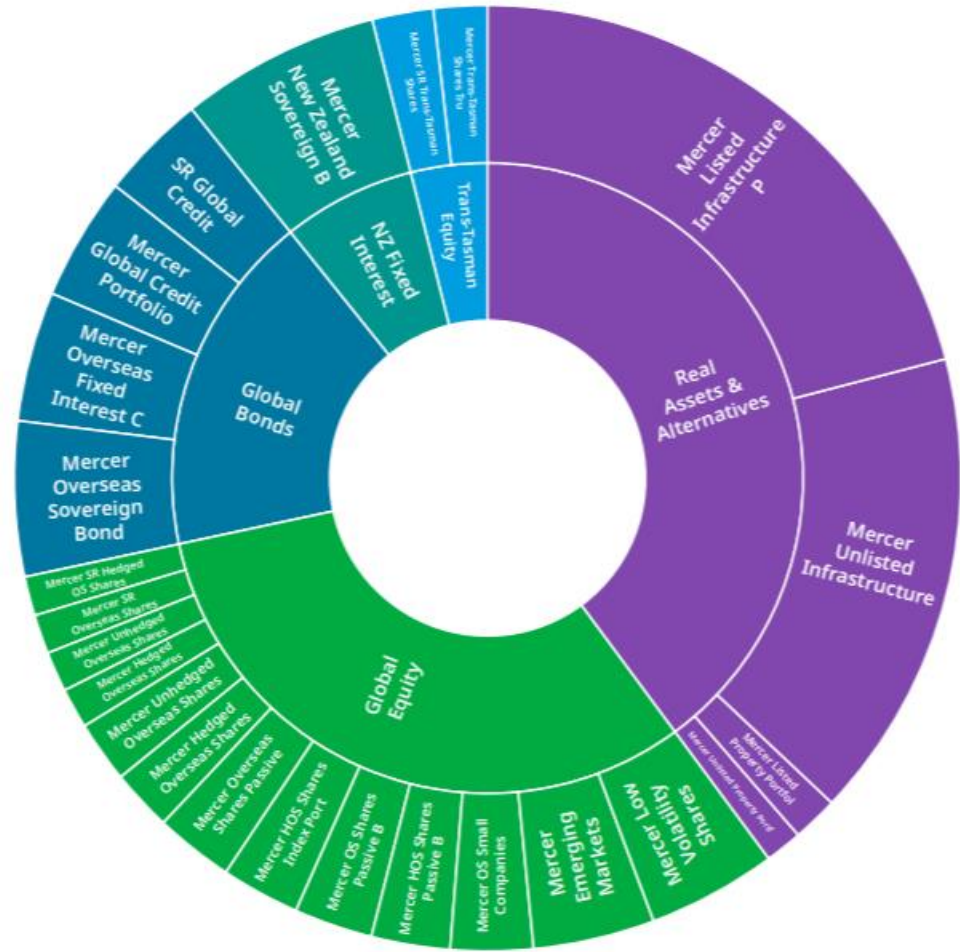
Example – Mercer NZ Transition plan



Asset allocation



Carbon intensity



Source: Mercer, with underlying metrics from MSCI ESG Research and ISS

Example – Mercer NZ Transition plan



Integration

- Optimised Strategic Asset Allocation (SAA) updates to contribute where possible to emissions reductions
- Optimised asset class emissions reductions informed by:
 - **Mercer's ACT results** by Fund and manager to prioritise highest emissions intensity and lowest weight impact
 - **Mercer's manager survey results**, those best positioned and that pose a risk
- Agreements made with appointed investment managers, based on materiality, for:
 - Transition management and emissions reductions
 - Physical damages management and risk reduction



Active Ownership

- Climate focused manager engagement
- Climate actively considered for voting and engagement across material holdings
- Participation in collaborative initiatives e.g. Investor Group on Climate Change, Climate Action 100+, CDP, Investor Statements to Governments



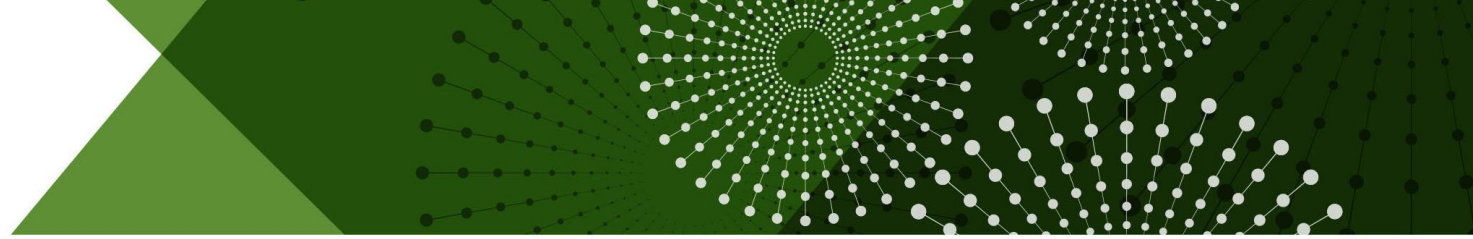
Investment in Solutions

- Increased allocation to low-carbon / sustainability-themed exposures through SAA optimisation and / or allocations within asset classes



Screening

- High carbon intensity exposures with low transition capacity (i.e. Dark Greys from ACT assessment) monitored to inform integration, manager engagement and active ownership steps



Questions

Proposed section:

Strategy

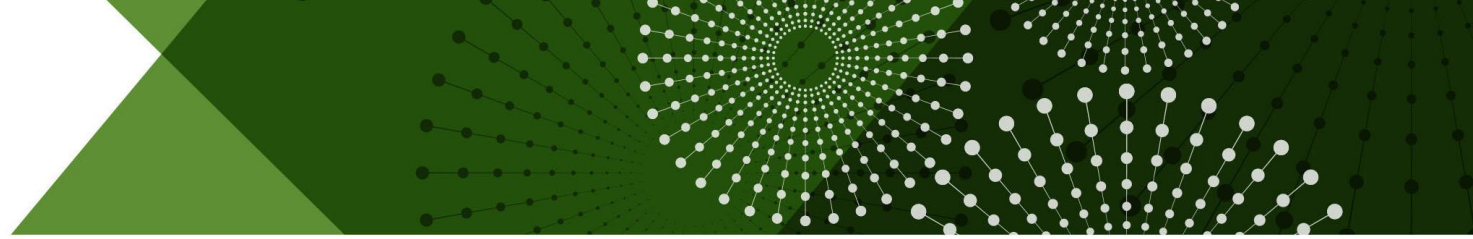
Strategy disclosure c)

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

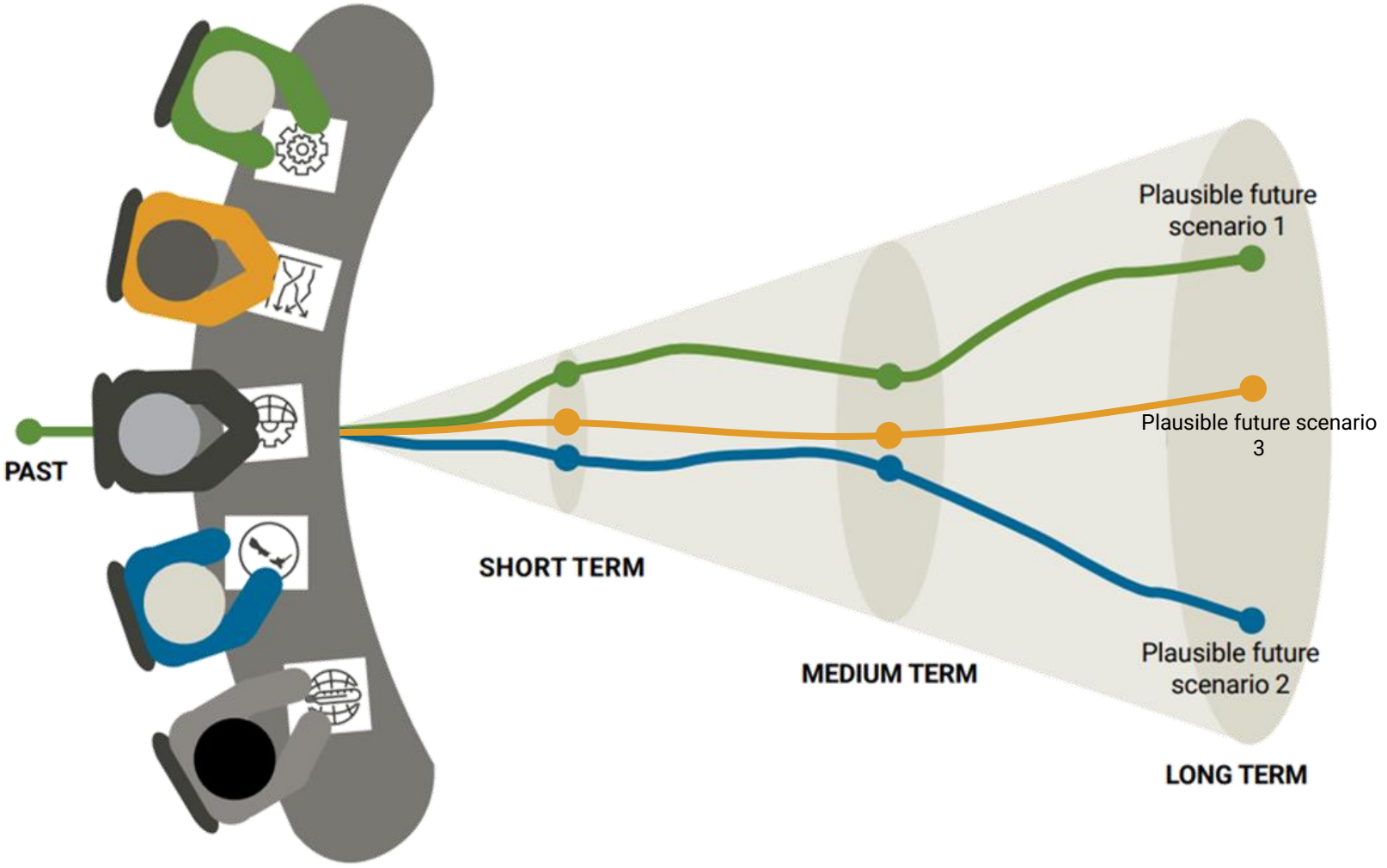
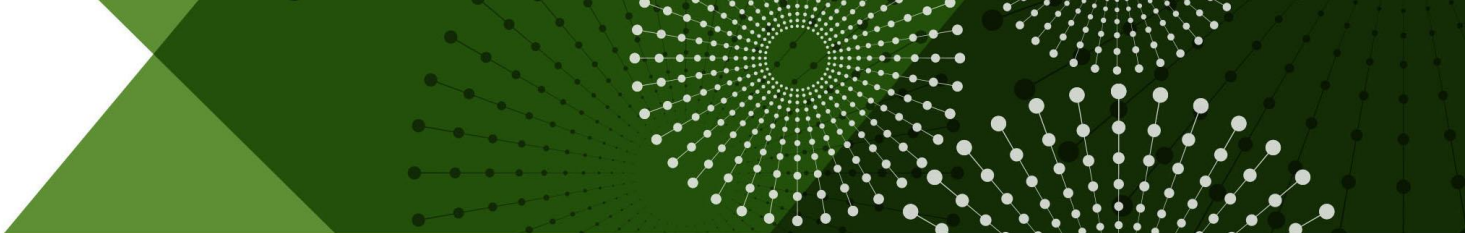
Sub-disclosures include:

- Potential impacts on business model and strategy
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- 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

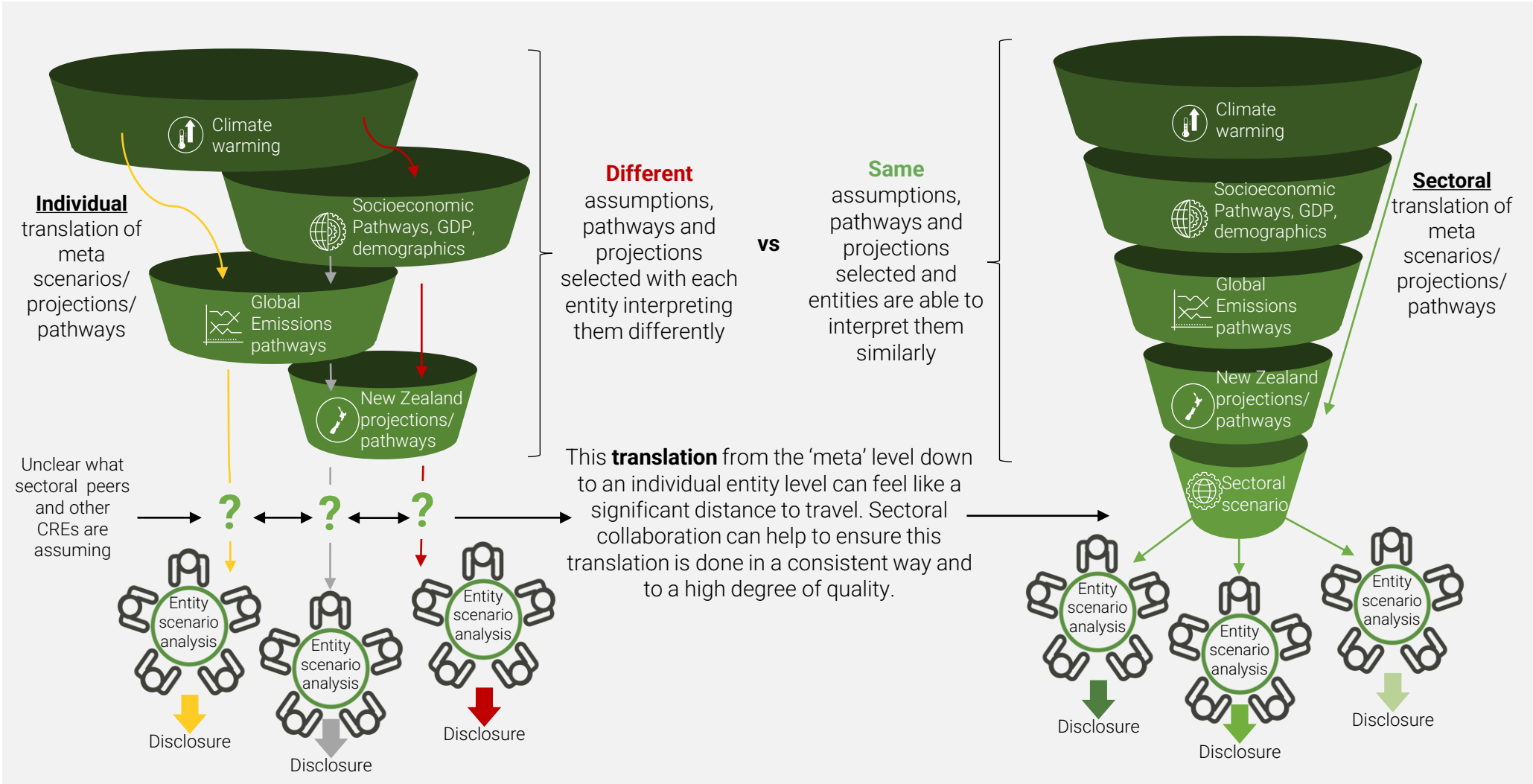
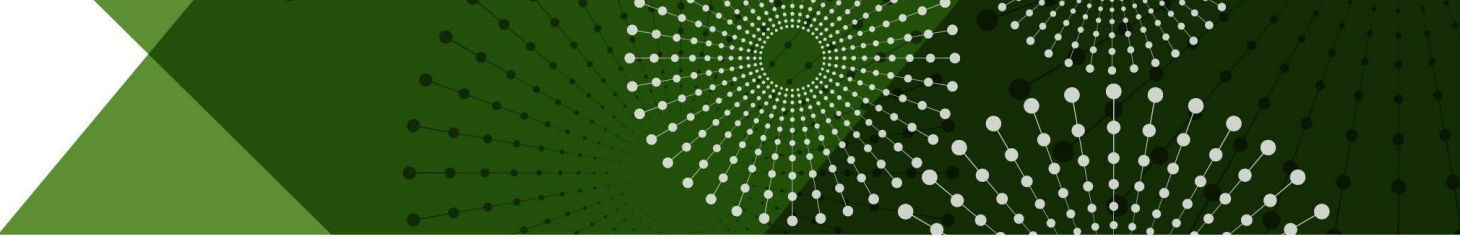
In the **first climate statement**: disclose qualitative information only in relation to both actual and potential financial impacts.

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

Scenario analysis is a tool to enhance strategic thinking



Parallel work to encourage starting on scenario analysis at the sector level



Shared architecture and assumptions: Indicative only

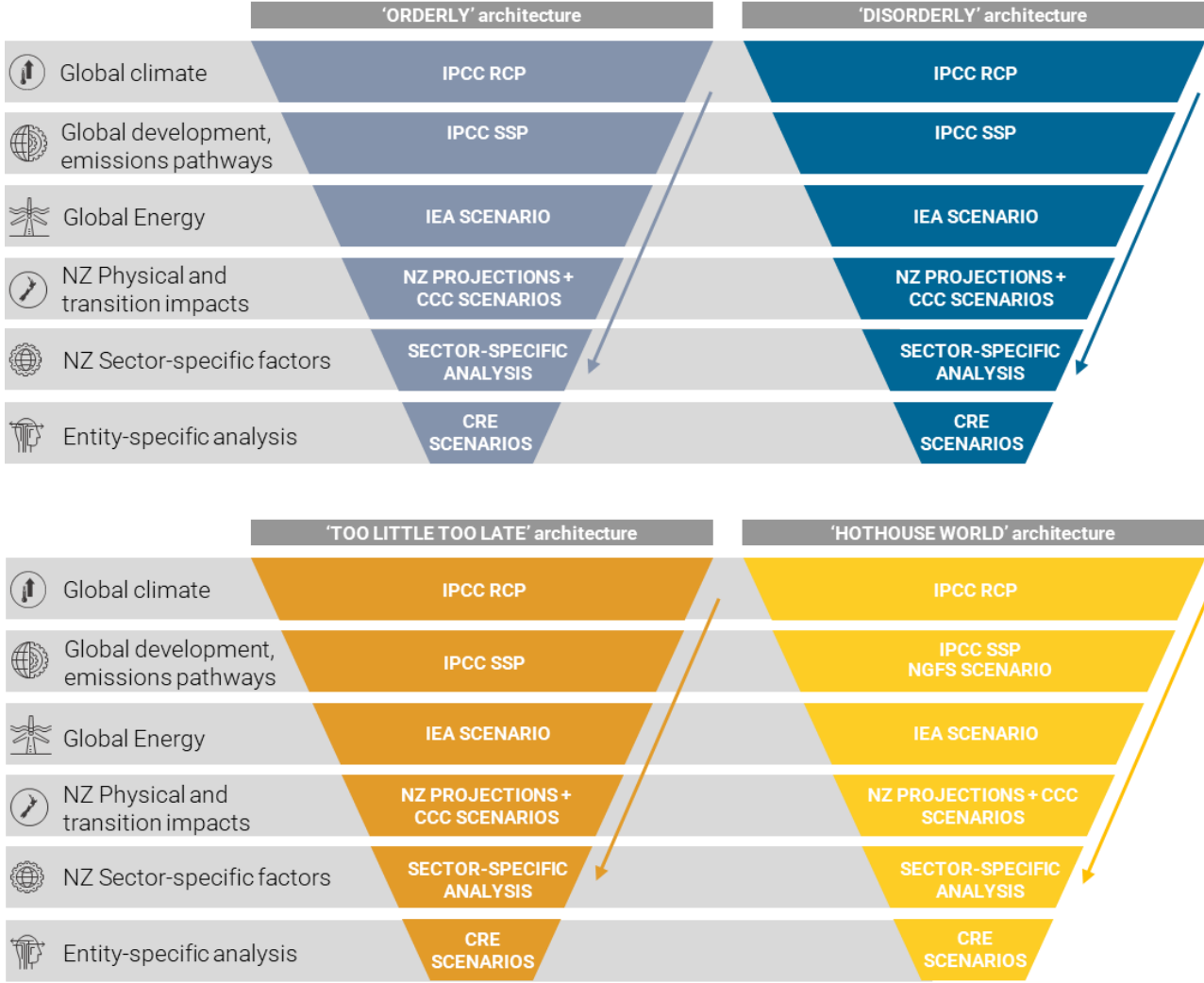
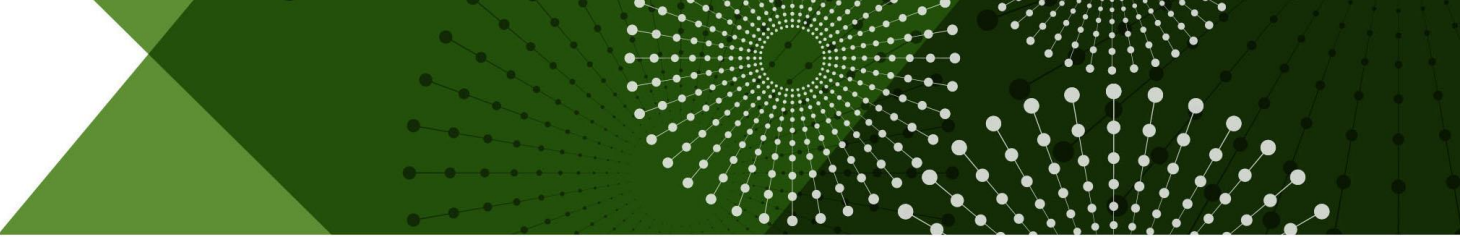


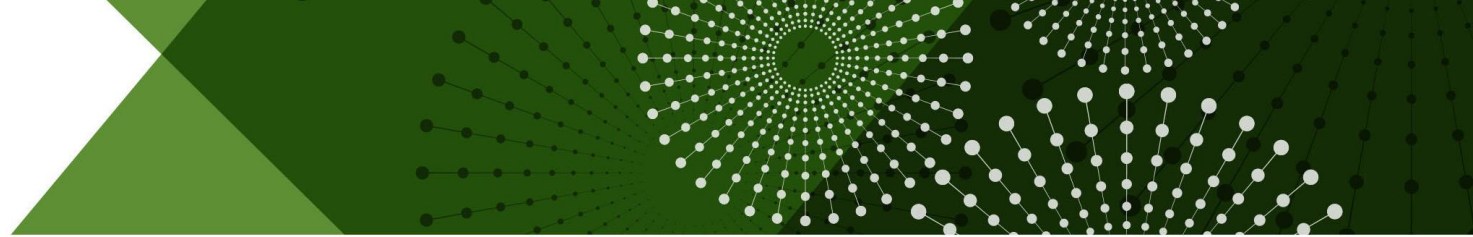
Figure 9: Coherent sets of projections, pathways and global scenarios can form a shared architecture for sectoral scenarios. These provide high-level data which are plausible, coherent and can be used to paint a picture of the world an entity might find itself in. Sectors can use these data to set out 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

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

Portfolio alignment – what is it?

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended Disclosure a)
Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

Supplemental Guidance for Asset Managers

Where appropriate, asset managers should provide metrics considered in investment decisions and monitoring.

Asset managers should describe the extent to which their assets under management and products and investment strategies, where relevant, are aligned with a well below 2°C scenario, using whichever approach or metrics best suit their organizational context or capabilities.^{89,90} Asset managers should also indicate which asset classes are included.

Portfolio alignment is a **tool** for forward-looking analysis that assesses the degree of alignment of a portfolio with a specified climate target/s. It is recommended by the TCFD for **all** financial institutions.

➔ *This arises and is discussed as a 'metric' but the analysis is often compared and sometimes is conflated with scenario analysis.*

Differentiating scenario analysis from portfolio alignment

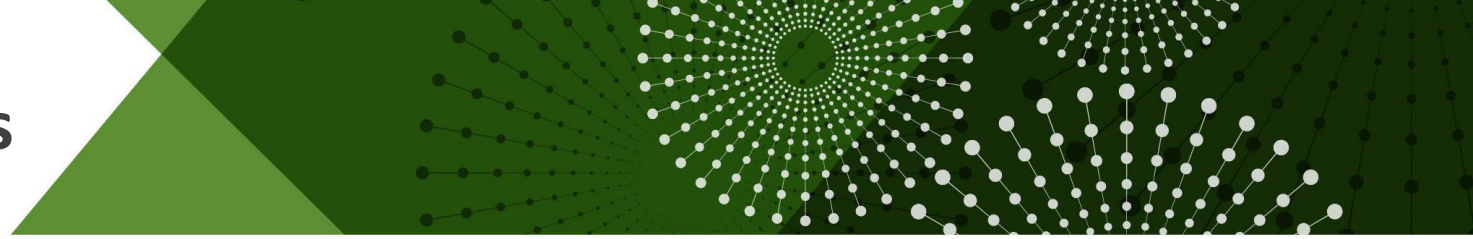
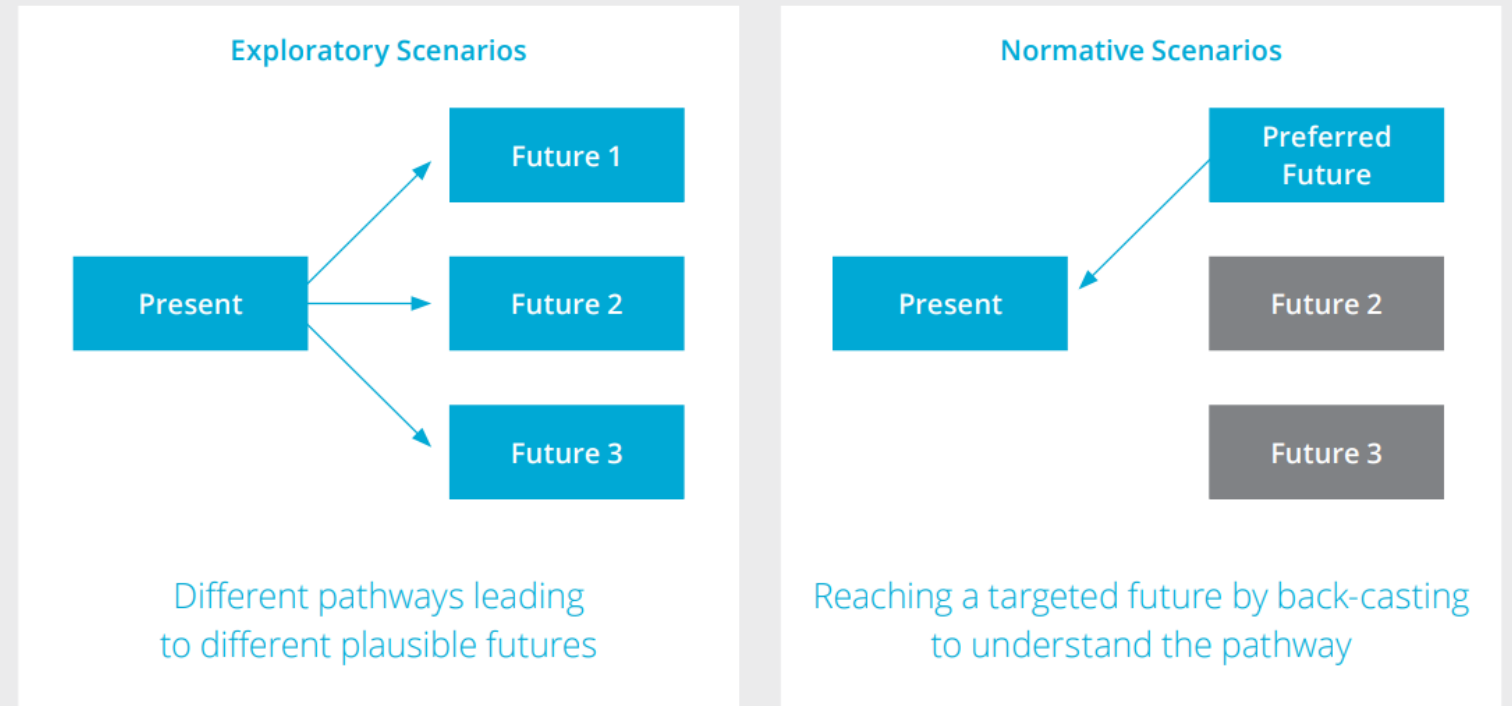
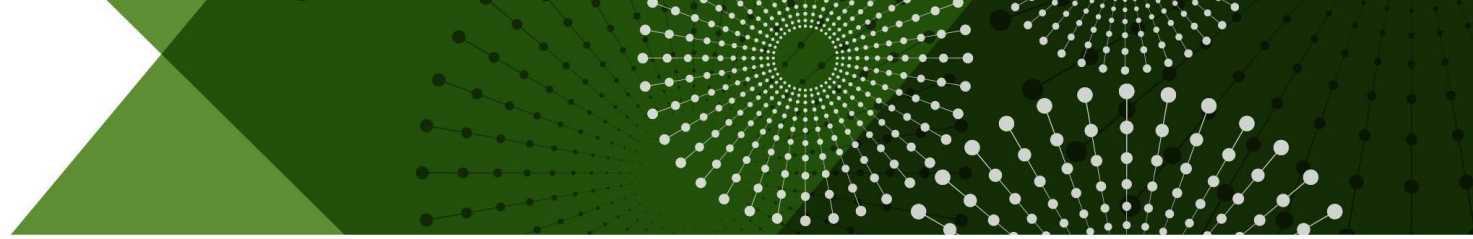


Figure C1
Exploratory versus Normative Scenarios



Scenario analysis

Portfolio alignment



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

