

Strategy, and Metrics and Targets

Climate-related Disclosures

Aotearoa New Zealand Climate Standard 1

NZ CS 1

Consultation

Feedback closes 2 May 2022

A decorative graphic consisting of four horizontal bars of different colors: light green, grey, blue, and orange.

March 2022

Consultation sessions



Strategy

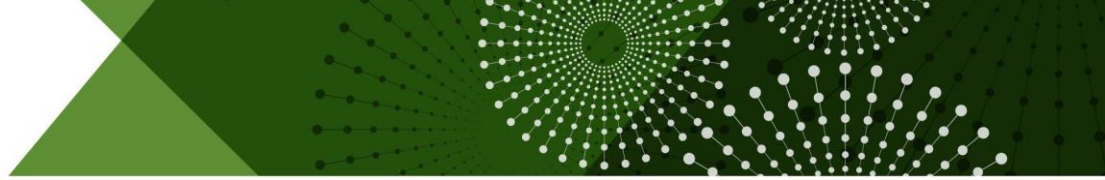
- for listed debt and equity issuers, 28 March, 12.30pm [link to recording](#)
- for financial sector entities, 29 March, 12.30pm [link to recording](#)

Metrics and Targets

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

Today's session

Outline for this session



- Overview of framework
- Proposed metrics and targets disclosures
 - Cross-industry metrics
 - Industry-specific metrics
 - Targets
 - Greenhouse gas emissions
 - Assurance
- Questions after each section

Who is required to report and by when?



Large listed issuers

Large listed debt or equity issuers

Large financial entities

Registered banks

Licensed insurers

Credit unions

Building societies

Managers of registered investment schemes

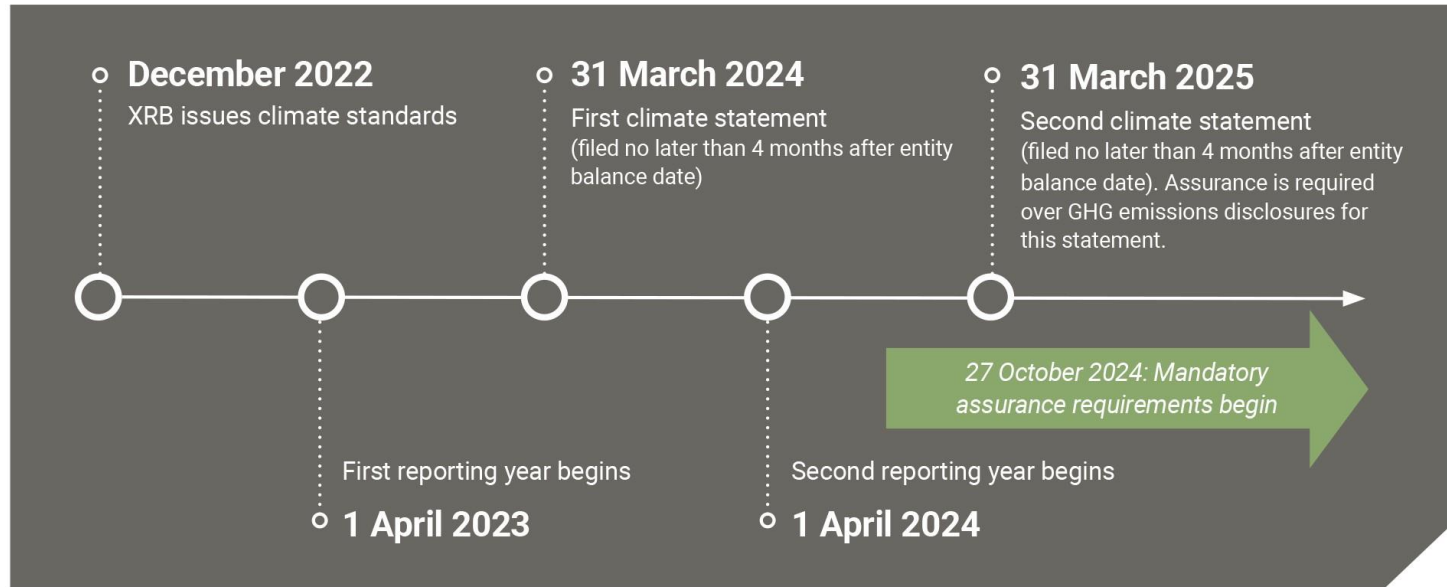
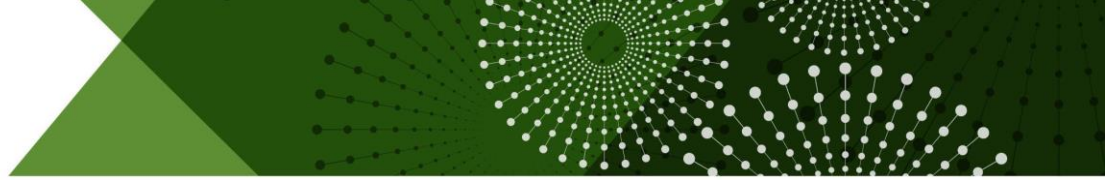
Some Crown financial institutions
(via letters of expectation)

Climate reporting entities must exceed the threshold of 'large' for the previous two accounting periods to be considered climate reporting entities.

Large listed debt or equity issuers = market capitalisation of over \$60 million

Large financial entities = NZ \$1 billion assets/total assets under management (or for insurers NZ \$250 million annual gross premium revenue)

Example timeframe for a 1 April to 31 March reporting entity



Disclosure areas

Governance

Board oversight and management assessment of climate-related issues

Strategy

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

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

Metrics and Targets

Summary of proposed section

Objective

To enable users to understand how an entity measures and manages its climate-related risks and opportunities.

Disclosures

Metrics

- Cross-industry metrics including GHG emissions (gross scopes 1, 2, and 3 (value chain))
- Industry-metrics and/or entity-specific metrics used

Targets

- Targets used and performance against targets

Methodologies and assumptions

- Methodologies and assumptions used in calculations
- Significant estimation uncertainties

Metrics and Targets

What we drew on

TCFD

Final Recommendations and Recommended Disclosures



2017 Report

Implementation Guidance



2021 Implementation Guidance (Annex)

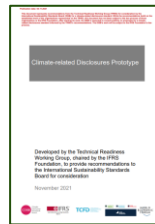
Additional Supporting Materials



2021 Guidance on Metrics, Targets, and Transition Plans

[TCFD Metrics and Targets workshop](#)

TRWG



[TRWG Prototypes](#)

GHG



[GHG Protocol](#)
[ISO 14064-1](#)
[GRI Standards](#)



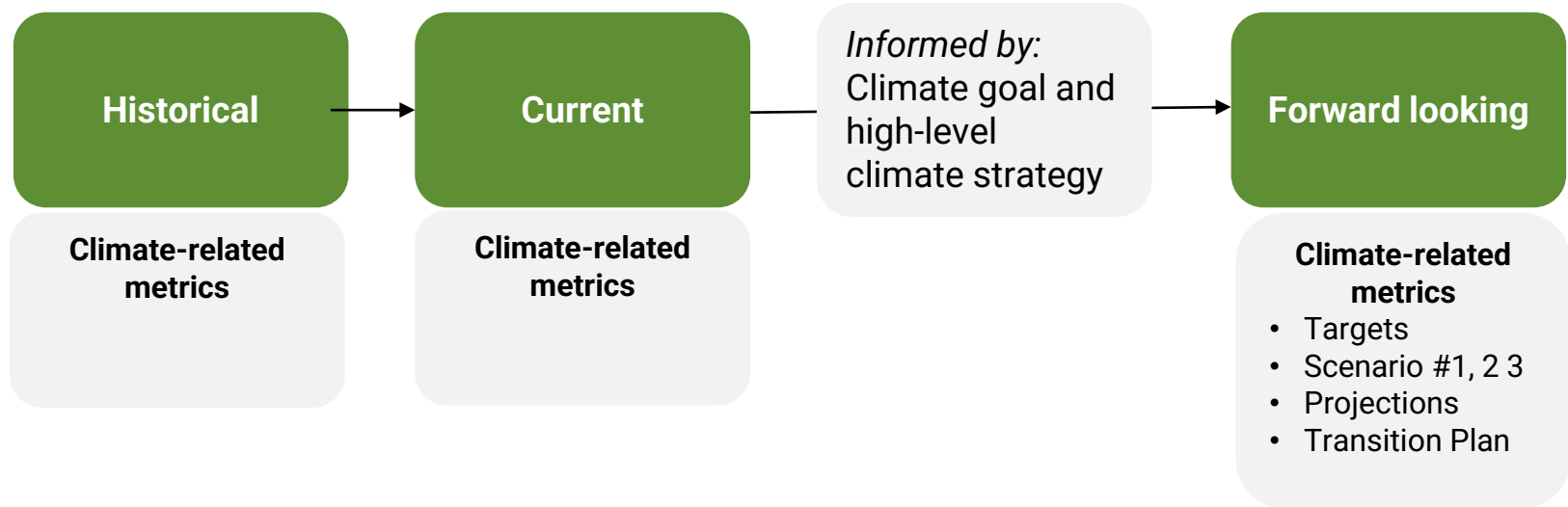
Metrics and Targets

Summary of proposed section

Cross-industry metrics categories

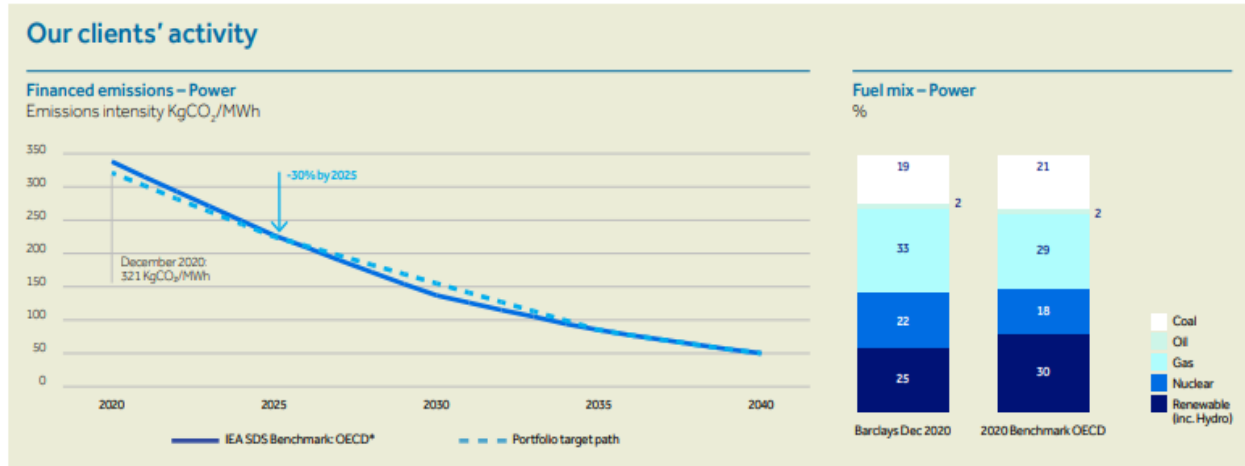
- Greenhouse gas emissions – gross scope 1, 2, 3 (value chain) (tCO₂e)
- GHG emissions intensity – (metric per tCO₂e)
- Transition risks – assets or business activities vulnerable (\$ or %)
- Physical risks – assets or business activities vulnerable (\$ or %)
- Climate-related opportunities – revenue, assets or business activities (\$ or %)
- Capital deployment – capital expenditure, financing or investment (\$)
- Internal emissions price – (\$ per tCO₂e)
- Remuneration – management remuneration linked (% or weighting or description or \$)

Metrics should be consistent over time



Example GHG intensity metric - Barclays

“Power portfolio emissions intensity will reduce by 30% by 2025, on the way to alignment with our benchmark by 2035”



Our methodology and the data on which it draws are continuously improving; any changes to metrics as a result of methodology changes or new information that lead to materially different outcomes may result in metrics being restated. As company disclosures continue to improve, we are hopeful that this data will become sufficiently robust to play a much greater role in the calculation of BlueTrack™ metrics.

*iea.org/inreports/world-energy-outlook-2019

Example transition risks metric – ING

“Outstanding– upstream oil and gas
€3.6 billion.”

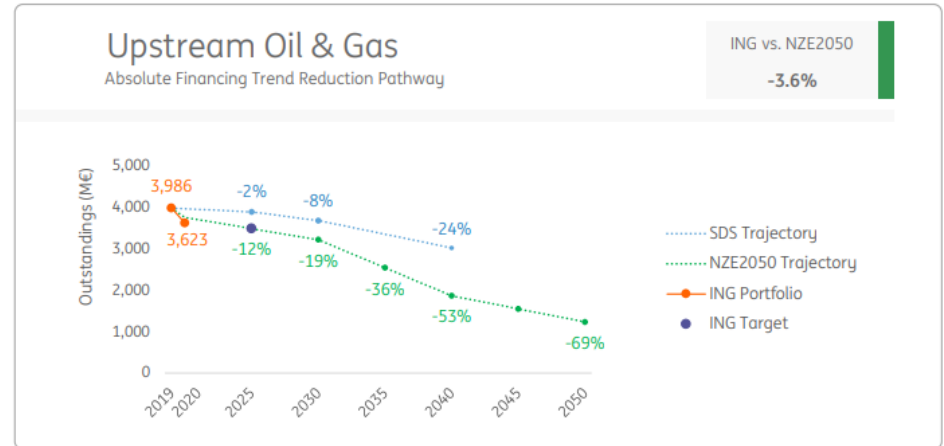
Upstream oil & gas

Upstream oil & gas

Outstandings in scope

€3.6 billion

Figure 6 Upstream Oil & Gas Financing Reduction Pathway



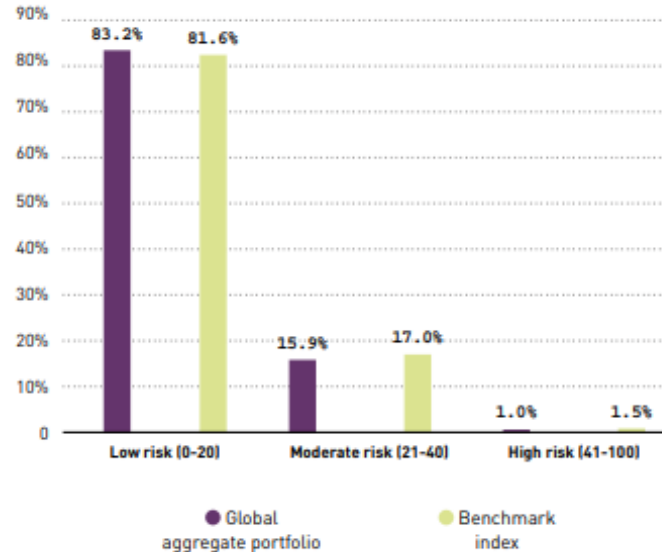
Source: ING, [Terra progress report](#), 2021

Example physical risks metric – ERAFP

“ERAFP’s global aggregate portfolio scores 11.9, indicating a low risk.”

EXPOSURE TO PHYSICAL RISKS (% OF ASSETS)

Source — Trucost, 30 November 2020

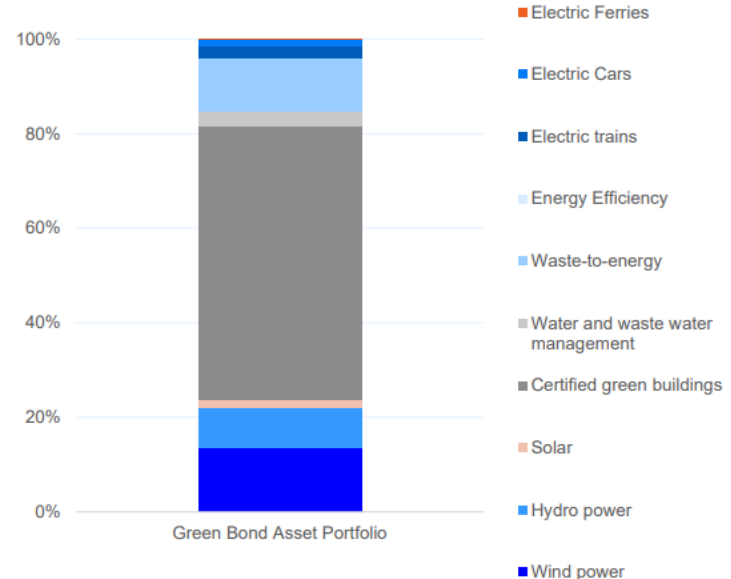


- + The risk score is less than or equal to 20 (low risk) for **83.2%** of the value of the global aggregate portfolio. This is higher than the low-risk proportion of the benchmark (81.6%).
- + The risk score is less than or equal to 40 (high risk) for **1.0%** of the value of the global aggregate portfolio. This is lower than the high-risk proportion of the benchmark (1.5%).

Example climate-related opportunities metric - Nordea

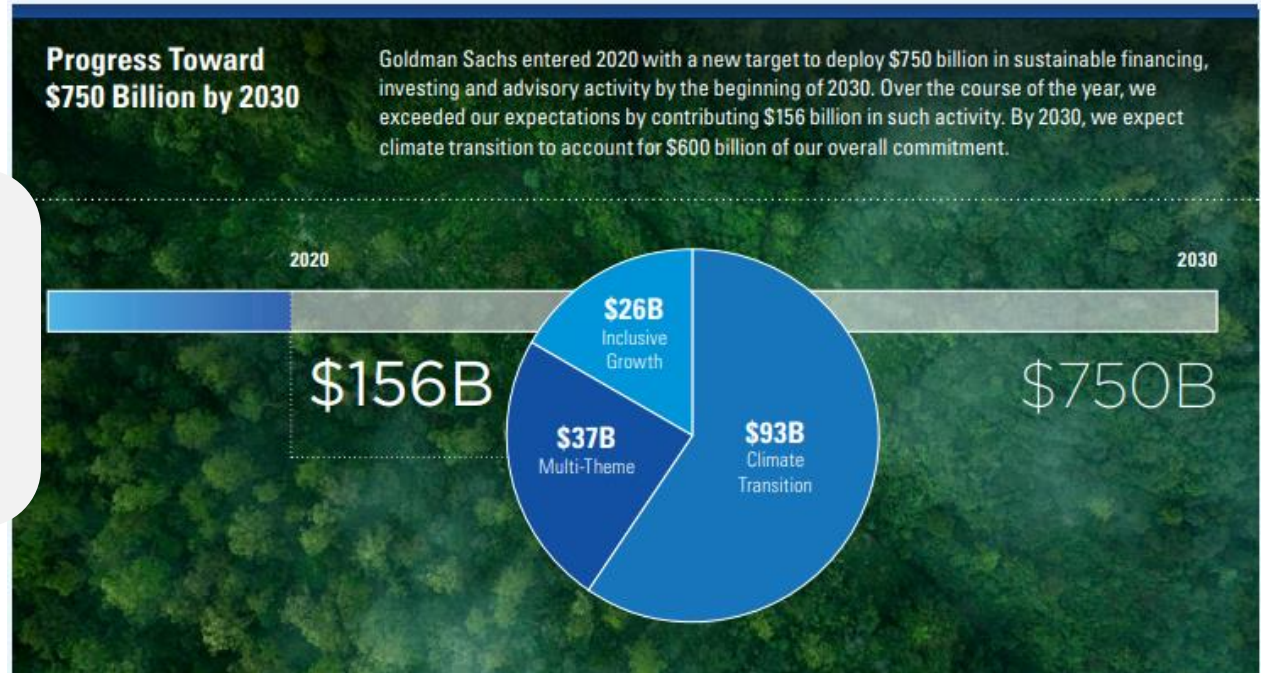
Investor presentation includes percentage breakdown of Green Bond Assets by sub-category

Green Bond Assets – breakdown by subcategory



Example capital deployment metric – Goldman Sachs

“Over the course of the year, we exceeded our expectations by contributing \$156 billion in such activity”



Source: Goldman Sachs, [2020 Sustainability Report](#),

Example carbon pricing metric – Aker BP

“Covering over 60% of companies in our five sectors, the bottom-up assessment assumed carbon price increase to USD 75/t CO₂e, holding the financials of our customers constant.”



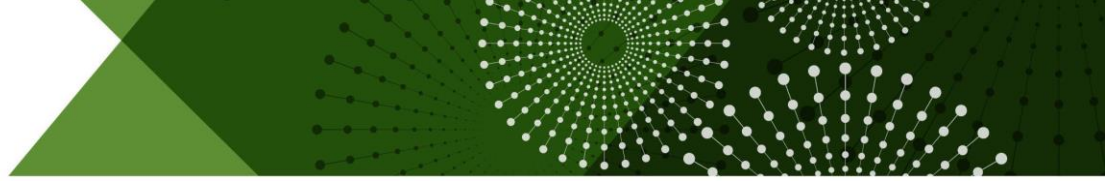
Example remuneration metric - Barclays

“The decision was to include a standalone Climate measure within the [Long-Term Incentive Plan (LTIP)], providing clear alignment between the LTIP outcome, up to a maximum of 10%, and progress towards our targets which will help us to become net zero by 2050.”

Source: Barclays PLC, [Annual Report 2020](#)

The 2021-2023 LTIP award will be subject to the following forward-looking performance measures.

Performance measure	Weighting	Threshold	Maximum vesting
2023 return on tangible equity (RoTE) ex material items*	25%	0% of award vests for RoTE of 6.0% rising on a straight-line basis	RoTE of 12.0%
Average cost: income ratio ex material items	10%	0% of award vests for average cost: income ratio of 65.0% rising on a straight-line basis	Average cost: income ratio of 62.0%
Maintain CET1 ratio within the target range	10%	<p>If CET1 is below MDA hurdle¹ +180bps during the period, the Committee will consider what portion of this element should vest, based on the causes of the CET1 reduction.</p> <p>If CET1 is above MDA hurdle +280bps but does not make progress towards the range over the period, the Committee will consider what portion of this element should vest, based on the reasons for the elevated levels of CET1 versus target range and the associated impacts.</p>	CET1 ratio between 180bps and 280bps above MDA hurdle throughout the period.
Relative Total Shareholder Return (TSR)	25%	6.25% vests for performance ² at median of the peer group ³ rising on a straight-line basis	Performance at the upper quartile
Risk Scorecard	10%	The Risk Scorecard captures a range of risks and is aligned with the annual incentive risk alignment framework shared with the regulators. The current framework measures performance against three broad categories – Capital and Liquidity, Control Environment and Conduct – using a combination of quantitative and qualitative metrics. The framework may be updated from time to time in line with the Group's risk strategy. Specific targets within each of the categories are deemed to be commercially sensitive. Retrospective disclosure will be made in the 2023 Remuneration Report, subject to commercial sensitivity no longer remaining.	
Climate	10%	<p>The evaluation will focus on progress towards our ambition to be a net zero bank by 2050 including:</p> <ul style="list-style-type: none"> our commitment to align our financing with the goals of the Paris Climate Agreement; and our commitment to £100bn of green financing by 2030. <p>There will be detailed retrospective narrative on progress over the period, including consideration of progress towards other relevant targets. Performance will be assessed by the Committee to determine the percentage of the award that may vest between 0% and 10%.</p>	
Strategic non-financial	10%	<p>The evaluation will focus on key performance measures from the Performance Measurement Framework, with a detailed retrospective narrative on progress throughout the period against each category. Performance against the strategic non-financial measures will be assessed by the Committee to determine the percentage of the award that may vest between 0% and 10%. The measures are organised around three main categories: Customer and Client, Colleagues and Society (Citizenship). Each of the three main categories has equal weighting. Measures will likely include, but not be limited to, the following:</p> <ul style="list-style-type: none"> Customers and Clients: Drive world class outcomes for customers and clients and continue to support them through the pandemic; improve Net Promoter Scores, reduce BUK customer complaints and improve resolution time, maintain client ranking and market share within CIB, increase digital engagement. Colleagues: Protect and strengthen our culture through our Purpose, Values and Mindset; continue to improve diversity in leadership roles, improve inclusion indicators, maintain engagement at healthy levels and maintain culture and conduct indicators. Society (Citizenship): Drive a focus on the sustainable impact of our business; continue investing in our communities, including LifeSkills, Connect with Work and Unreasonable Impact. 	



Questions

Metrics and Targets

Summary of proposed section

Industry- and entity-specific metrics

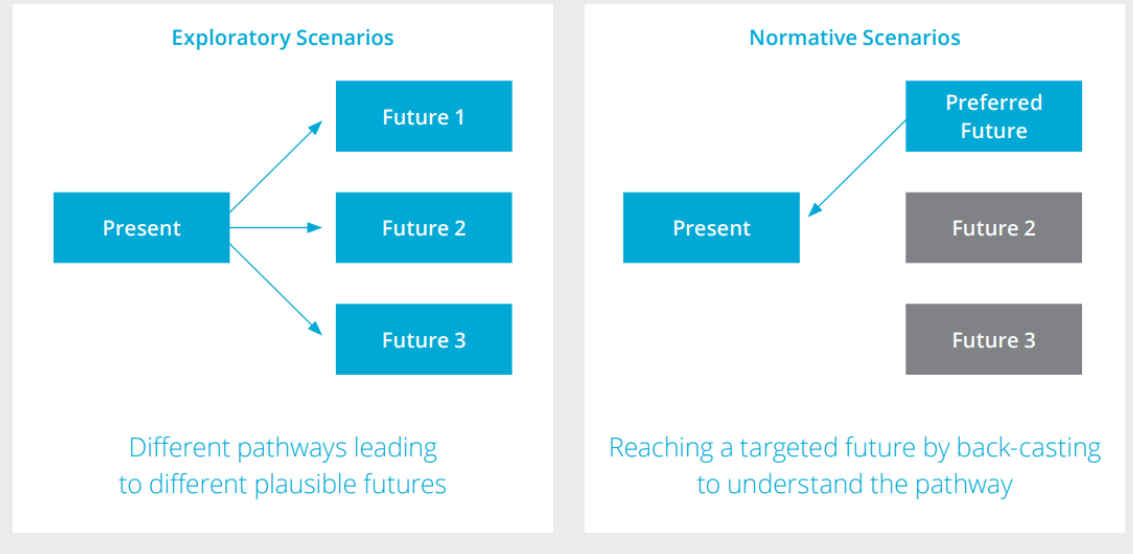
- Must disclose industry-specific metrics used
- Any other key performance indicators used

Sector (per TCFD)	Potential metrics
Asset managers	<ul style="list-style-type: none"> Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy Provide metrics considered in investment decisions and monitoring Describe the extent to which their assets under management and products and investment strategies are aligned with a 1.5 degree scenario
Asset owners	<ul style="list-style-type: none"> Describe metrics used to assess climate-related risks and opportunities in each fund or investment strategy Provide metrics considered in investment decisions and monitoring Describe the extent to which assets they own and their funds and investment strategies are aligned with a 1.5 degree scenario
Banks	<ul style="list-style-type: none"> Credit exposure, equity and debt holdings, or trading positions, broken down by: industry, geography, credit quality and average tenor Amount and percentage of carbon-related assets relative to total assets Amount of lending and other financing connected with climate-related opportunities Describe the extent to which their lending and other financial intermediary business activities are aligned with a 1.5 degree scenario
Insurance	<ul style="list-style-type: none"> Aggregated risk exposure to weather-related catastrophes of their property business by relevant jurisdiction Describe the extent to which their insurance underwriting activities are aligned with a 1.5 degree scenario

Differentiating scenario analysis from portfolio alignment

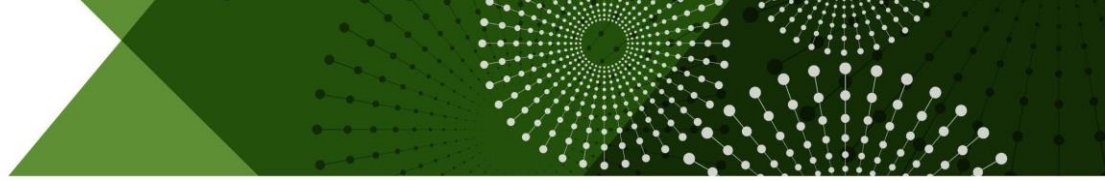
Figure C1

Exploratory versus Normative Scenarios



Scenario analysis

Portfolio alignment



Questions

Metrics and Targets

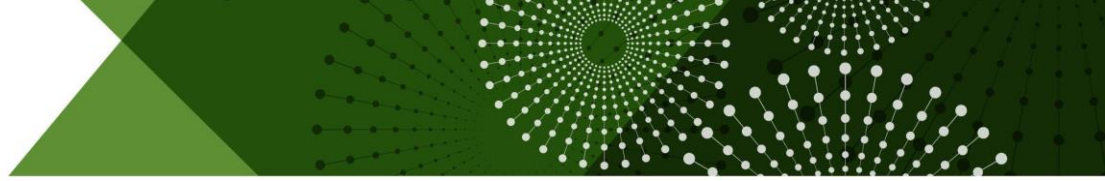
Summary of proposed section

The targets used to manage climate-related risks and opportunities and performance against targets

Sub-disclosures include:

- Whether the target is absolute or intensity based
- Whether the target is science-based and if so, whether it has been validated by a third party
- Timeframe of the target, any interim targets and the base year
- Description of performance against targets

Cross-industry metric category	Example climate-related target
Transition risks assets or business activities vulnerable (\$ or %)	Reduce percentage of asset value exposed to transition risks by 30% by 2030, relative to a 2019 baseline
Physical risks assets or business activities vulnerable (\$ or %)	Ensure at least 60% of flood-exposed assets have risk mitigation in place in line with the 2060 projected 100-year floodplain
Climate-related opportunities revenue, assets or business activities (\$ or %)	Increase net installed renewable capacity so that it comprises 85% of total capacity by 2035
Capital Deployment capital expenditure, financing or investment (\$)	Lend at least 10% of portfolio to projects focused primarily on physical climate-related risk mitigation
Internal emissions price (\$ per tCO ₂ e)	Increase internal carbon price to \$150 by 2030 to reflect potential changes in policy
Remuneration management remuneration linked (% or weighting or description or \$)	Increase amount of executive management remuneration impacted by climate considerations to 10% by 2025



Questions

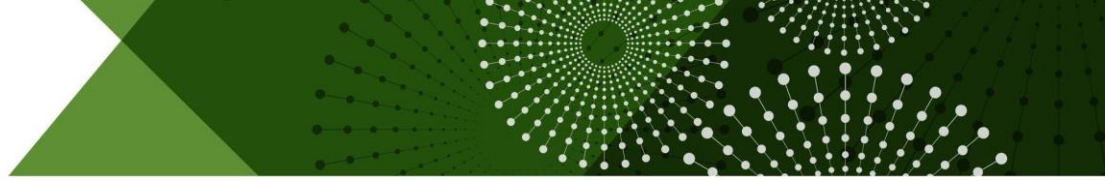
Metrics and Targets

Summary of proposed section

The methodologies and assumptions used to calculate its metrics and targets

Sub-disclosures include:

- Description of methodologies and assumptions, including significant assumptions made and limitations of those methods
- Identify metrics that have significant estimation uncertainty, including the factors affecting the uncertainties



Questions

Metrics and Targets

Summary of proposed section

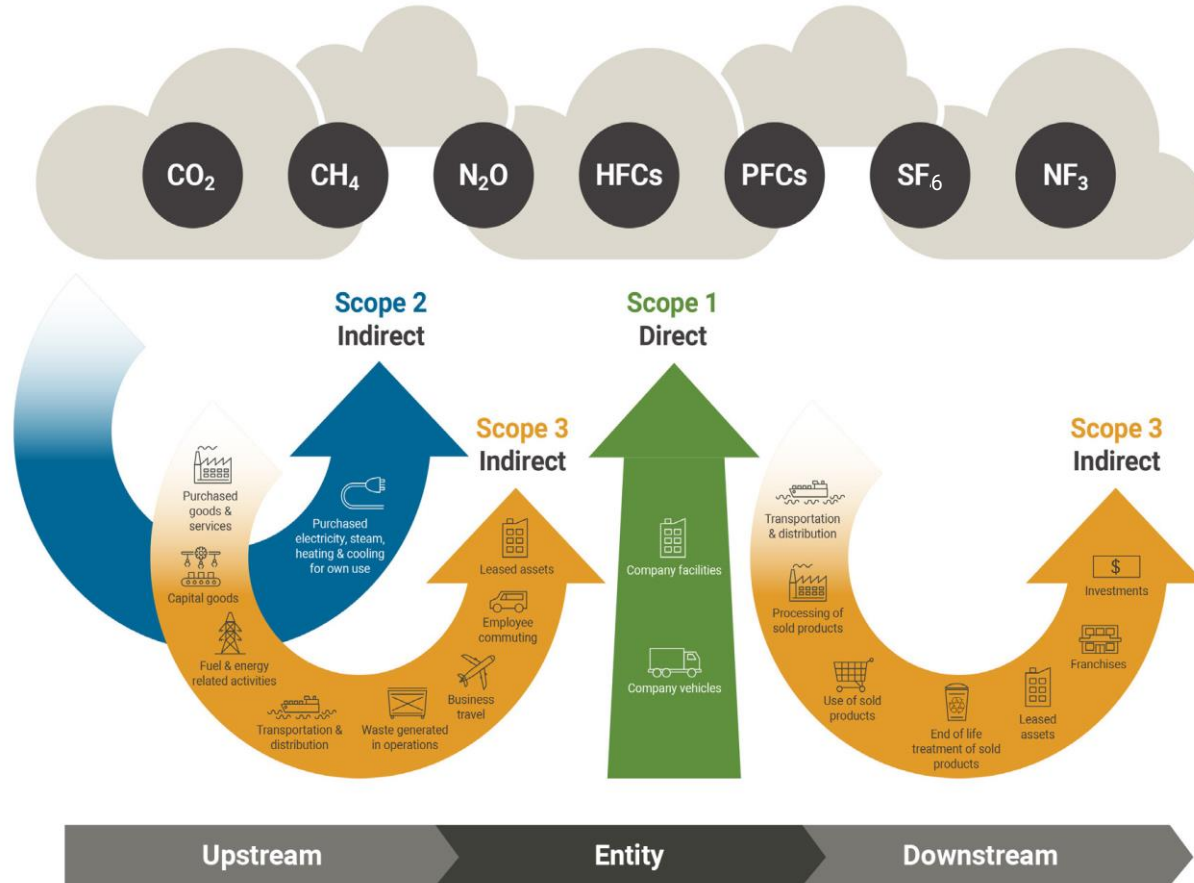
Greenhouse gas (GHG) emissions: gross scope 1, scope 2, scope 3 (value chain) emissions in metric tonnes of CO₂e

Defined term

gross emissions

The total of emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based methodology. Removals should be reported separately.

Emissions scopes



Scope 3 matters

Disclosed emissions by scope (metric tons CO₂e)

Each bar represents the emissions of one FI

Here the scale goes from 0 to 20m

To see the financed emissions of those that report for their portfolio the scale must increase to 200m tons



Source: CDP [Financial Services Disclosure Report 2020](#)

* Only 25% of disclosing financial institutions report financed emissions. For those 25% on average, reported financed emissions are over 700x larger than reported operational emissions.

Metrics and Targets

Summary of proposed section

Greenhouse gas (GHG) emissions: gross scope 1, scope 2, scope 3 (value chain) emissions in metric tonnes of CO₂e

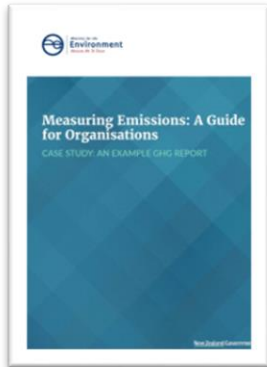
- Gross scope 1, 2 and 3 GHG emissions
- a statement describing the standards, protocols, and methodologies that the entity's GHG emissions report has been prepared in accordance with
- Additional requirements for the disclosure of GHG emissions (e.g., consolidation approach, GWP, source of emission factors)
- Requirement to prepare a GHG emissions report and provide a link/cross reference to this report
- Confirmation that GHG disclosures have been drawn from the GHG emissions report

Metrics and Targets

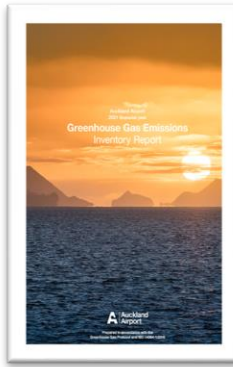
Defined term

GHG emissions report

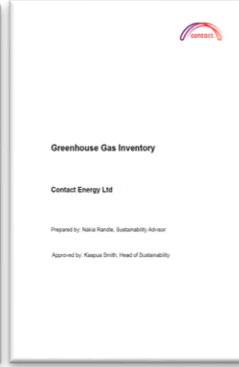
The report from which GHG disclosure data is extracted for the climate statement. This contains all the details required by the recognised standards or methodologies (basis of preparation) used to calculate emissions.



[MFE example](#)



[Auckland Airport](#)



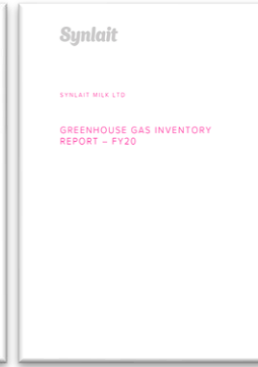
[Contact Energy](#)



[Meridian Energy](#)



[Mainfreight](#)



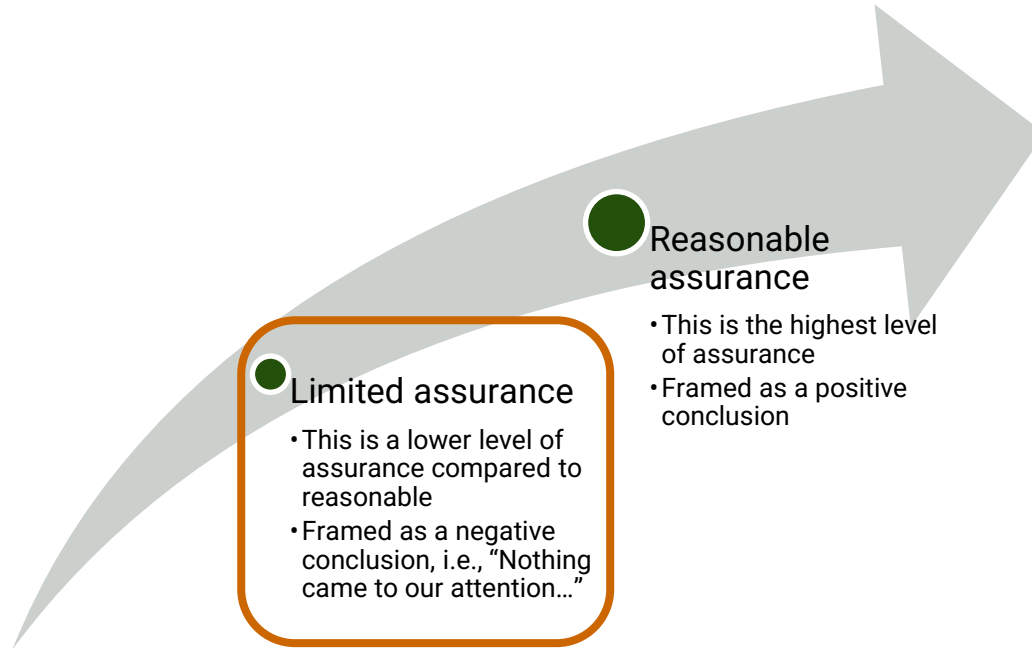
[Synlait](#)



[Z Energy](#)

Assurance

Proposed minimum level



Entities can obtain reasonable assurance over some, or all, of their GHG emissions disclosures, or any other disclosures, if they wish



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 provide feedback you can:

Email us
Climate@xrb.govt.nz

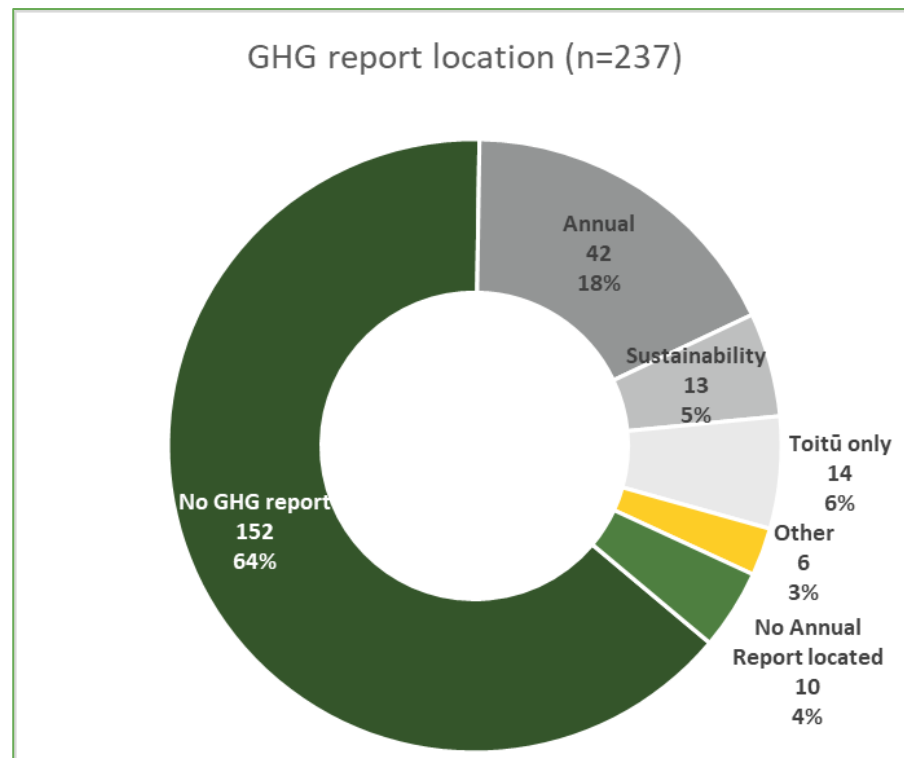
Submit via
www.xrb.govt.nz

Comment on our
LinkedIn page

The consultation closes 2 May 2022

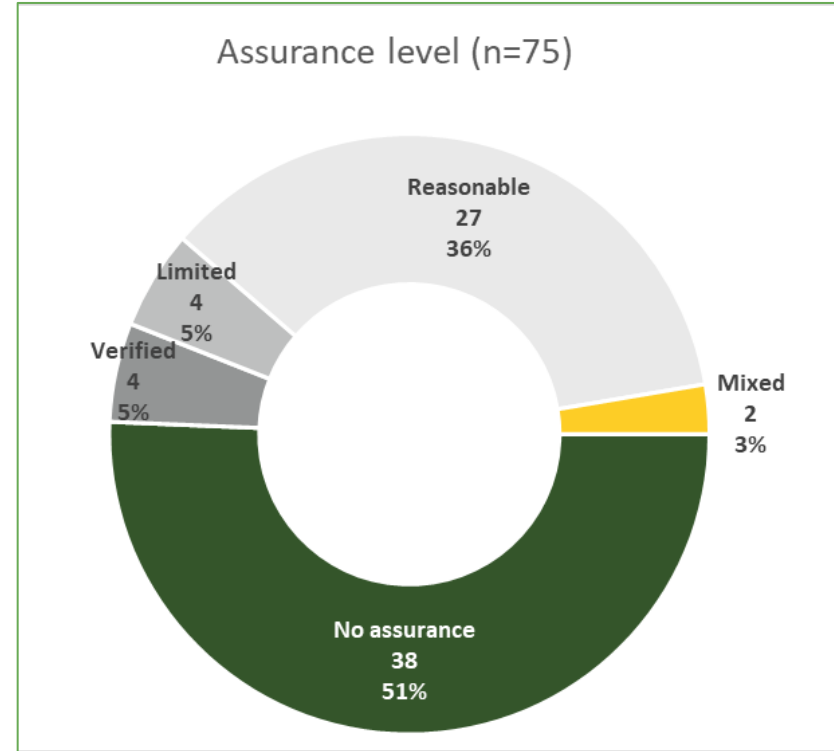
About one third of organisations currently report GHG emissions

- Disclosures were usually a summary statement
- Little/no information about assumptions



In our review only half who were reporting got assurance

- Most reporting is for Scope 1, 2 and partial Scope 3
- Typical partial Scope 3 is business travel and waste



Reasonable assurance engagements were spread across the scopes

