

April 29, 2022

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Climate-related Disclosures – Strategy and Metrics & Targets

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to provide comments, in response to member request, on the *Aotearoa New Zealand Climate Standard 1 Climate-related Disclosures NZ CS 1 (Strategy, and Metrics and Targets Consultation Document)*.

The American Property Casualty Insurance Association (APCIA) is the primary national trade association for home, auto, and business insurers in the U.S. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe and include companies that operate in New Zealand.

APCIA recognizes the role climate risk disclosures can play in increasing the transparency and understanding of firms' climate-related risks for the benefit of financial market participants and other interested stakeholders. In light of the increased focus and attention on climate risk disclosures, in July, 2021, on behalf of its member firms, APCIA released a set of principles on climate change reporting, supplementing an earlier set of broader principles. As is the case in this instance, the principles guide our interactions with, and feedback to, relevant authorities issuing new climate disclosure frameworks, with special emphasis on proportionality, materiality, and confidentiality.

1. Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?

We support the overall ambition of the draft standard; however, we do not believe the XRB has given sufficient and due consideration to the principle of proportionality when setting the Strategy section of NZ CS 1. This standard will impose considerable costs on CREs and will be particularly burdensome for those smaller entities that meet the minimum legislative threshold for having to report (e.g., \$250m in annual premium income in the case of insurers).

We are also concerned that the level of detail and the volume of information that CREs are being asked to disclose risks overwhelming primary users. Again, in light of the volume of climate-related information CREs are being asked to disclose, this standard places excessive weight on climate matters relative to the many other material pieces of information that can drive decision making by primary users as well as enterprise value.

3. Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a 'greater than 2°C scenario'? Why or why not?

We acknowledge the two key concepts described in the standard of 'scenario analysis' and 'climate-related scenarios.' This standard posits that the reams of climate information to be disclosed will allow for comparable and consistent climate information across CREs. With regard to climate-related scenarios and scenario analysis, as currently proposed, the only consistent element will be the minimum 1.5-degree temperature increase scenario as well as a "greater than 2 degree scenario". Beyond this,

CREs will be free to select inputs and assumptions as well as other climate scenario models and adapt them as they see fit. Lastly, we note there is no formalized expectation on the part of the XRB that sector-wide scenario analyses be developed – it appears merely to be a recommendation; however, we note XRB's comment that further guidance on this is being prepared.

We would urge further dialogue on the balance between achieving the goal of comparable and consistent climate information on the one hand and the substantial flexibility the standard currently provides CREs in developing their climate-related scenarios and scenario analysis on the other.

4. We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?

Insurers will be highly reliant upon the transition plans of their insureds and investees in order to assess their risks and opportunities, the potential (future) financial impacts, and scope 3 emissions. Without any consistency across CREs in terms of the baseline target/objective, insurers' ability to determine their risks/opportunities, develop a strategy in response, and accurately disclose this information will be impacted. As such, we believe further dialogue on this issue would be very helpful.

6. The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:

Firstly, we concur that transition and adaptation plans should be phased in via first time adoption relief. We further acknowledge that Scope 3 (underwriting and investment emissions) will comprise a significant portion of insurer CREs emission sources, however we urge extending time for adoption relief to the targets and metrics section.

As a sector, insurers will be highly reliant upon the disclosures of other CREs (whom are insurance customers and/or investees) in order to then disclose data points such as Scope 3 and yet by the XRBs own admission (pg. 40), the reporting of this data will be challenging for the first number of years and – assuming the required information is even available – significant use of assumptions and proxy data will be necessary, at least in the initial years of disclosure.

The standard does not appear to provide any sort of phased implementation to allow other CRE's to first disclose their emissions data and allow further time for the financial sector to collect and ingest that information to determine their scope 3 emissions. We also note that guidance and taxonomy for carbon foot-printing underwriting and investment portfolios are still under-developed.

9. We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?

We refer to earlier related comments in our response to Q.6. Without comprehensive reporting of emissions data by insureds and investees, insurers will be challenged to accurately disclose their scope 3 value chain emissions which in turn means that they will need to rely on assumptions and proxy data, where it exists. Until reporting reaches a certain maturity level, insurers will therefore be reliant upon third parties in order to fill in the significant data gaps they will encounter. Third party data providers each rely on different methodologies and assumptions in order to generate their proxy data. The methodologies and assumptions are also not always made available to users. As such, there is a significant error band around this data with another upshot being that in the case of users deploying this proxy data, comparability of their results will obviously be questionable at best.

12. The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?

We do not agree; please see response to Qs. 6 and 9.

13. The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?

What purpose will a “limited level of assurance” serve other than to underscore that there is a significant error band around the data? How does limited assurance interact with the definition of materiality where “misstatements” could reasonably be expected to influence the decisions of primary users? In other words, is this information truly decision useful - or risk misinforming - primary users?

14. The XRB has proposed a definition of material (*Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity’s enterprise value across all time horizons, including the long term*). Do you agree with this definition? Why or why not?

We do not agree with the current definition of “material” and would offer up the following observations:

- We agree with the definition of material as stated under requirements #1-3.*
- The presumption under requirement #4 that virtually all the elements set out in the proposed disclosure are material seems to challenge key tenets of materiality including judgement and an assessment of facts and circumstances at the individual company level to determine what climate-risk related information is or is not material.*
- What is the purpose of a materiality consideration when the standard suggests that other/alternative relevant information ought to be furnished [to primary users] when a CRE decides not to disclose information because it’s been deemed not material?*
- “Context” should not be a factor in determining whether information is material; it adds a degree of subjectivity into materiality considerations that risks undermining the more objective factors laid out under requirements #'s 1-3.*
- Requirement # 13 also seems intent on stretching the definition of materiality and the extent of information to be disclosed by asking CRE’s to consider “the full range of possible outcomes and the likelihood of the possible outcomes within that range” on an entity’s enterprise value.*

Lastly, there is a recognition in this document that companies will be at varying stages along the way to meeting the climate risk disclosure expectations as set out by the XRB. We believe there is room and an appetite for talent and capacity building initiatives in order to increase the expertise of companies relating to climate risk and sustainability. We further believe government has an important role to play in this respect.

Again, APCIA appreciates the opportunity, at member request, to provide comments on the proposed disclosures around strategy, metrics, and targets. Please do not hesitate to reach out to us should you wish to discuss our responses in more detail.

Respectfully submitted,

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