1 May 2022

External Reporting Board
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Climate-related Disclosures – Strategy, and Metrics and Targets Consultation

The New Zealand Society of Actuaries is the professional body for actuaries practising in New Zealand.

Actuaries are experts in assessing the financial impact of tomorrow's uncertain events. They enable financial decisions to be made with more confidence by:

- Analysing the past
- Modelling the future
- Assessing the risks involved
- Communicating what the results mean in financial terms.

Actuaries understand a wide range of technical disciplines and provide advice to many industries including healthcare, superannuation, insurance, banking and investments. Actuaries are becoming increasingly involved with non-financial sector organisations that aim to improve outcomes through data-driven insights.

We welcome the opportunity to make submissions on the Strategy and Metrics and Targets sections of the Aotearoa New Zealand Climate Standard 1 (NZ CS 1) within the External Reporting Board's current consultation.

In general, the NZSA agree with the proposed disclosures for both the Strategy and Metrics and Targets sections of NZ CS1.

Questions

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

a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?

Overall, we agree that the information required to be disclosed within the Strategy section of NZ CS 1 will meet the needs of the primary users.

We support the requirement to report on at least two scenarios as this will allow users of the disclosures to understand the sensitivity to different scenarios rather than having only a single set of figures. A 1.5°C scenario represents a strong transition scenario and hence show an entity's potential for impact to short term change. A higher temperature increase scenario on the other hand will show the potential impact of physical risks on an entity.

Disclosure 5 c) requires an entity to disclose the actual financial impact of climate-related risks and opportunities on its financial position, financial performance and cash flows. It may not always be possible to attribute financial performance to specific risks. For example, in the insurance industry it may be possible to identify expenditure that relates to mitigating climate risks but it may be difficult to split the impact of claims due to adverse weather between variability in weather and changes in climate over a longer term.

We support the requirements to disclose assumptions and methodologies around the scenario analysis. Actuaries are familiar with such requirements and regularly present details of the assumptions and methodologies they use to ensure transparency in how values are derived.

some organisations group legislative and legal risks separately from physical and transition risks, while other organisations include these risks as transition risks. For the disclosures described in 4 c) we recommend the XRB clarify where legal and legislative risks are included.

2) Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?

Disclosure of an entity's business model and strategy will help to inform areas of climate-related risks and opportunities. Where such disclosures are required by other organisations then there is potential for dual reporting. XRB should align reporting requirements in this area as much as possible with other requirements to relieve the burden on CREs.

Care will also be needed that commercially sensitive information does not need to be disclosed.

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?

Where no adverse scenario is specified, the resulting disclosures will be less comparable between companies. If comparability is a desirable feature of the disclosures, then the standard should be more prescriptive on the adverse scenario to disclose.

Given the material in the IPCC's report Climate Change 2022: Impacts, Adaptation and Vulnerability a scenario of a 2°C temperature increase may no longer represent an extreme scenario. It may be more useful to prescribe a more extreme scenario in order to demonstrate the potential impact of an higher physical risk scenario on an entity.

Different scenarios may be more appropriate for different industries. For example, in the insurance industry a scenario looking at a +3°C scenario may be more relevant than say a 2°C temperature increase if impacts are not expected to be significant at the lower increase scenario.

XRB might like to consider specifying in more detail what is meant by a 1.5°C or 2°C scenario. For example, by including a timeframe and / or referencing the Paris Agreement.

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?

We are comfortable that transition plans are not tied to any particular target. Each entity will be free to decide what target is best for their business, within the context of national targets and commitments. The disclosure of targets will show which entities are more or less ambitious on contributing to mitigating climate change. The primary users can then act accordingly to pressure those businesses doing less if the market feels that is appropriate.

5) Do you have any views on the defined terms as they are currently proposed?

The definitions of terms provided appear appropriate to us at this time. We have no specific comments on any of the terms.

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

a) Do you agree with the proposed first-time adoption provisions? Why or why not?

b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.

c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

NZSA agrees with the proposed first-time adoption provisions.

We support the requirement to give progress updates on the Transition and Adaptation Plans through the transition period until full CS 1 disclosures are required.

It is likely that entities will need, and take, all of the time that is on offer to produce the disclosures required. Given the experience of some entities within the insurance industry even with the first-time adoption provisions some entities may struggle to produce meaningful disclosures for scenario analysis.

International experience has shown that quantifying the impact of different scenarios has been a difficult area for entities that are already undertaking voluntary disclosures under the TCFD. The 2021 Annual Update from TCFD reported that compliance with the strategy pillar of the recommendations was the lowest of all pillars and that scenario analysis compliance within this pillar was low. See page 30 of Task Force on Climate-Related Disclosures 2021 Status Report.

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The first-time adoption provision for paragraph 4(b) states that no further information is needed. It is not clear whether this means that no information in respect of 4(b) is needed or whether no additional information is needed. We suggest that the word "further" is removed from the provision.

7) Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?

a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?

We expect that industry-specific metrics will be important to the primary users of the disclosures and the CREs. It is appropriate that each industry develop or evolve their own metrics to ensure that they are relevant to their CREs.

We note the use of the term "science-based" without any definition. There are likely to be broad definitions of what "science-based" means within industry however it may be useful to define this term.

We note that the comments that XRB makes in relation to the emissions report and NZ CS 1 being a disclosure rather than a measurement standard. The requirements around the emissions report seem complicated by this fact – the standard requires a separate report be prepared but then requires the disclosure of the emissions, the standard, protocols and methodologies used to calculation them, and have an assurance carried out over them. It would be useful if these requirements could be simplified in some way.

8) We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?

We expect that industry-specific metrics will be important to the primary users of the disclosures and the CREs. It is appropriate that each industry develop or evolve their own metrics to ensure that they are relevant to their CREs. We are comfortable that industry standard metrics will evolve where appropriate.

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?

For financial institutions, in particular, where Scope 3 emissions will need to be sourced or calculated for a large number of entities, the requirements to disclose Scope 3 emissions may be very onerous. This may be particularly true for investments in overseas companies. We expect that over time the ability to disclose Scope 3 emissions will become easier as disclosure becomes more widespread and financial institutions become more adept at the calculations themselves. It may, therefore, be appropriate to allow for some relaxation of the requirements for first time adopters.

XRB quotes the TCFD recognising the challenges of quoting Scope 3 emission. Under a voluntary regime, such as the TCFD, it may be appropriate to be aspirational in the disclosure requirements as there are lower consequences for not disclosing. Under a mandatory regime where there are greater consequences for not completing the full disclosures there is more of a case to allow for more limited disclosures for a limited time.

10) Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?

We have no observations or concerns for these requirements at this time.

11) Do you have any views on the defined terms as they are currently proposed?

The definitions of terms provided appear appropriate to us at this time. We have no specific comments on any of the terms.

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?

Certainly, measurement of emissions is more mature than other items required in CS 1 and therefore first-time adoption should be achievable for CREs, however see our comments on question 9.

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

A limited assurance regime for the GHG emissions seems appropriate at this time.

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 support the proposed materiality definition.

15) Do you have any other comments on the proposed materiality section?

We also encourage XRB to consider including double materiality in future once CREs have become comfortable with the proposed regime.

This submission was prepared by the Sustainability Interest Group of NZSA. Please contact me if you have any questions regarding our submission or would like to discuss any of the points we have raised.

Yours sincerely

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