Submission on the XRB Climate Strategy, Metrics and Targets Consultation

Key points:

- Scenario analysis is one of the key areas that would be more informative at a portfolio level once entity level disclosure from investee companies is made available.
- For asset managers, first-time provisions should apply for the disclosure of our metrics and targets given that they involve the collation of data from underlying investee companies that will be provided at the same time.

This submission is from **Harbour Asset Management Limited** – a New Zealand owned and operated funds management company whose investment philosophy includes promoting leading Environmental, Social and Governance (ESG) practices among listed companies and relevant stakeholders. This encompasses advocacy of climate change considerations and the pathway to meeting New Zealand's net zero emissions target by 2050.

Harbour manages over $7.2bn for New Zealand clients, including many clients that manage KiwiSaver schemes.

Overall, we are supportive of the principles-based approach adopted in forming the climate reporting standards thus far and are grateful to have the opportunity to provide feedback as part of this consultation process.

Our submission is focused on providing an asset manager perspective to the strategy, metrics, and targets disclosures primarily as it applies to Harbour as a Climate Reporting Entity (CRE) who manages our own retail funds as well as investment mandates from other CREs. We will be required to report metrics at a fund level rather than entity level which is different to other CREs and therefore informs the perspective of our submission.

Asset management context

Relative to other CREs, asset managers are in a more complex position of being both primary users of this disclosure (from corporate issuers of debt and equity) as well as being CREs ourselves. This inherently makes providing reliable and timely portfolio level climate disclosure difficult when much of this is contingent on what is provided by our underlying investment holdings.

Asset managers also invest across multiple asset classes which can complicate the application of these standards given the nature of the assets e.g. short-duration bonds that do not align with long-term climate risk analysis and bonds having an asymmetric payoff that limits the ability to capitalise on the upside of climate opportunities.

It is not uncommon for asset managers to offer several different funds that may have the same governance structure but that may have different climate strategies and metrics which would all be required to report separately at the fund level. Asset managers also use fund-of-fund structures and external managers that may operate in different countries that do not have mandatory reporting obligations which makes the collection of look-through data more complex.

Given these concerns, we would recommend explicit guidance for the asset management industry on how these standards should be applied and ideally "first-time" provisions offered to allow time to assess disclosure from underlying investments. Exclusions and omissions should also be permitted where data remains impossible to gather, is of poor quality or unverified.

Strategy

We are broadly supportive of the disclosures proposed under the strategy section and agree with the first-time provisions relating to transition and adaptation plans as well as the quantification of financial impacts.

We value the use of scenario analysis however believe that the scenarios should be prescribed for better comparability. We acknowledge the intent to give CREs flexibility to select the most relevant scenario greater than 2 degrees for their industry/business. However this may cause significant variation in which scenarios are used in practice and may be arbitrarily selected instead of aligning with scientific pathways already created such as the Representative Concentration Pathways (RCPs) adopted by the Intergovernmental Panel on Climate Change (IPCC).

Inconsistent scenarios may not provide useful information to primary users and particularly for asset managers. Scenario inconsistency among investee companies will further complicate portfolio level scenario analysis. Using RCP pathways such as 4.5 or 8.5, would provide a consistent series of assumptions and credibility given the scientific research conducted by the IPCC and NIWA without creating an unnecessary resource and cost burden to develop new scenarios for each industry/entity.

Scenario analysis is one of the key areas that would be more informative at a portfolio level once entity level disclosure from investee companies is made available hence our suggestion for a first-time provision applying for asset manager CREs. Voluntary TCFD disclosure to date has been lacking in scenario analysis so any portfolio level assessments are limited to historic emissions trajectories and/or assuming companies are on track to meeting their climate targets, which does not provide a fully informed view.

Regarding the defined terms 'business model, strategy and financial planning' these will need to be adapted to a fund level context for asset managers (whether disclosures are consolidated or not) e.g. how fund strategy is impacted by climate-related risks and opportunities. This would likely best be clarified in the accompanying guidance for the disclosures.

Metrics and targets

Regarding disclosure requirements in the metrics and targets section, we agree with the cross-industry metrics proposed and how industry and entity specific metrics should be left to the CRE (with guidance provided) to avoid being overly prescriptive.

For asset managers, first-time provisions should apply for the disclosure of our metrics and targets given that they involve the collation of data from underlying investee companies that will be provided at the same time. This is particularly apparent for climate-related metrics other than GHG emissions (e.g. climate revenue and capex alignment) where current voluntary disclosure across the listed market is inadequate.

Guidance should be provided, specifically for portfolio level metrics and assurance requirements, given the nuances in aggregating the data and limitations in coverage e.g. the lack of emissions data for sovereign or local government bonds. Also, more clarity on the role of scope 3 emissions relating to asset managers would be helpful given that the industry standard portfolio metrics recommended by the TCFD implementation guide (such as Carbon Footprint and Weighted Average Carbon Intensity) only incorporate the issuers' scope 1 and 2 emissions.

Summary

We believe that on the whole, the draft disclosures have been developed in a clear, balanced way that will be useful for decision making however note that there are clear differences in the characteristics of asset manager CREs that require further clarification and first-time provisions.

This has been informed from our experience in measuring and reporting portfolio level climate metrics on a voluntary basis which has been impeded by limited issuer level disclosure, particularly from the government and local government sector on the fixed income side.

We are encouraged that the mandating of climate disclosure under this framework brings urgency and accountability to the issue and will help solve the disclosure gap that currently exists as well as encourage action to meet our national climate targets.