13 December 2019

Ministry for the Environment
PO Box 10362
Wellington 6143

Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6140

Via email: crfd@mfe.govt.nz

Dear Sir or Madam

Submission on Climate-related financial disclosures – Understanding your business risks and opportunities related to climate change: Discussion document

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide a submission to the Ministry for the Environment (the Ministry) and the Ministry of Business, Innovation and Employment (MBIE) on the above discussion document. We have focused our feedback on key areas where we consider we can add the most value. Appendix A provides our responses to the specific questions raised in the discussion document and Appendix B provides more information about CA ANZ.

Key Points:

- We are a strong advocate for appropriate climate-related disclosures and reporting for decision making. We appreciate and share MBIE and the Ministry's concerns surrounding failure by many organisations to comply with disclosures required under the existing reporting framework.

- To avoid recurrence of the compliance issues referred to above, we strongly recommend that, prior to implementing an entirely new regime, regulators seek to understand and address the reasons for noncompliance with the existing regime.

- We consider the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) recommendations provide a strong foundation for determining the climate-related financial disclosures needed to inform the market. However, we consider these recommendations should form a subset of a wider external reporting framework. Such a framework should encompass other forward-looking business risks (such as cyber-security, conduct and modern slavery) to further promote good governance by organisations. Taking a multi-capital approach and communicating how value is created via a suitable reporting framework (such as integrated reporting) would be more appropriate than treating climate change in isolation to the other external risks and opportunities faced by businesses.

- While the discussion document suggests that the current approach is voluntary, we note that this contradicts the existing fiduciary duty of directors to report on material issues. The Companies Act 1993, the New Zealand Stock Exchange Listing Rules, the Financial Markets Authority Corporate Governance Handbook all require directors to report on material issues as outlined in the legal opinion prepared by Chapman Tripp for the Aotearoa Circle.

- To the extent a new regime is introduced, comprehensive education must be put in place to raise awareness. Also critical will be effective monitoring and enforcement, to ensure that appropriate reporting is carried out.

Should you have any questions about the matters discussed in this submission or wish to discuss them further, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely,

Peter Vial FCA
Group Executive New Zealand & the Pacific

Karen McWilliams FCA
Business Reform Leader
Advocacy & Professional Standing

Appendix A

General comments

We support the policy intent set out in the discussion document. We are a strong advocate for appropriate climate-related disclosures and reporting for decision making, and we appreciate and agree there are concerns that, despite the requirements in the existing reporting framework, these disclosures are not being made in practice.

The discussion document provides an opportunity for a wider conversation about how best to address the challenge of providing the market with sufficient information on climate-related risks and their associated financial impacts. However, we question whether the appropriate solution to this concern is additional regulation, particularly given the obligation to disclose this information already exists in the current rules and guidelines.

Chapter 1

1. Is the TCFD reporting framework the most appropriate framework for New Zealand?

The recommendations as set out by the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) do not form a reporting framework, but rather a set of voluntary disclosures designed to ensure that material climate-related financial disclosures are made in annual reports as filed by organisations.[1] In particular, the TCFD envisioned that these disclosures could be made regardless of reporting framework (using similar processes as organisations were already likely to have in place), thereby facilitating consistency in information provided to investors throughout myriad regimes (as influenced by factors such as jurisdiction, sector and size).[2]

By way of example and to illustrate the TCFD's intention, we note that the TCFD recommendations have been referred to in existing external reporting frameworks – such as Australia's Operating & Financial Review, the Australian Stock Exchange (ASX) Corporate Governance principles, and the European Union's (EU) Non-Financial Reporting Directive.

We consider the TCFD recommendations provide a strong foundation for determining the climate-related financial disclosures needed to provide the market with sufficient and credible information. However, we are of the opinion that these recommendations should form a subset of a wider external reporting framework, alongside other forward-looking business risks (such as cyber-security, conduct and modern slavery) to promote good governance by organisations. All risks can have financial consequences, therefore we consider it crucial that organisations have an appropriate risk management framework to address all external risks (and opportunities) for their business. Taking a multi-capital approach and communicating how value is created via a suitable reporting framework (such as integrated reporting) would be more appropriate than treating climate change in isolation to the other external risks and opportunities faced by businesses.

Introducing the TCFD recommendations (which are also themselves still relatively new) in isolation, without an underlying external reporting framework, places an unbalanced focus on climate risk which could result in other risks being overlooked. Further, some businesses may, in the absence of a wider risk reporting framework, only include climate-related financial disclosures in their annual report misleading users as to the existence of other material risks

2. Do you agree with the conclusions we have drawn at the end of chapter 1?

Yes, we note that these conclusions are universally accepted. For completeness, we note that paragraph [48.7] of the discussion document should refer to 'climate-related *financial* reporting'.

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[1] See page 17 of *Recommendations of the Task Forces on Climate-related Financial Disclosures – Final Report* (2017).
[2] See page 33 and Annex 4 of *Recommendations of the Task Forces on Climate-related Financial Disclosures – Final Report* (2017) where the TCFD note that the disclosure recommendations were developed to sit in line with the range of reporting frameworks that organisations might already be subject to.

Chapter 2

3. Do you agree with the objective as set out above?

Yes, we agree with the objective as stated.

We note that disclosure is not and should not be considered the only means to alter organisational behaviour with respect to climate risks. While reporting provides users with information for the purpose of making informed investment decisions, these decisions may not necessarily translate into better climate risk management by the business.

4. Should other objectives also be considered?

In our view, consideration should be given as to the reasons New Zealand's existing reporting frameworks and director fiduciary duties are not currently resulting in climate risks being properly considered and disclosed.[3]

Many organisations (and the directors by extension) do not sufficiently understand the risks and opportunities presented by climate change with respect to their business. As such, raising awareness and providing education should also be considered, particularly to enable adequate climate-related financial disclosures within the proposed transition period.

5. Do you agree with the problem definition? Are there other aspects we should consider?

The problem definition notes that the status quo is not currently providing sufficient and credible information at the required pace. While the discussion document suggests that the current approach is voluntary, we note that this contradicts the existing fiduciary duty held by directors to report on material issues.[4] The wording of and commentary on this existing fiduciary duty is, for all intents and purposes, mandatory in nature. Surrounding guidance regarding this fiduciary duty is itself still relatively new (for example, the New Zealand Stock Exchange (NZX) Corporate Governance Code was re-issued on 1 January 2019 following a review to ensure the existing commentary sufficiently captured disclosure obligations) and reporting by businesses and investor expectations are still maturing and evolving.

Further, the discussion document does not fully address the issues of 'why' the status quo is not delivering the information required, nor why enforcement is noticeably lacking. Regardless of the approach taken (ie status quo or not), we consider it important to understand the reasons behind lack of disclosure, before another possible solution is developed, so that the desired outcome is actually achieved. In our view, a lack of awareness and understanding of the impact of climate change on an organisation as well as minimal monitoring and enforcement of the reporting requirements are likely factors. There is a need to raise awareness of the broad range of risks and opportunities of climate change affecting New Zealand businesses beyond just sea level rises and reducing Greenhouse Gas (GHG) emissions.

As noted above, we consider it crucial that organisations have an appropriate risk management framework to address all external risks and opportunities for their business. Taking a multi-capital approach to non-financial matters and communicating how value is created (or impacted) via a suitable reporting framework (such as integrated reporting or the global reporting initiative) would be more appropriate than treating climate- related matters in isolation to the other external risks and opportunities faced by businesses.

Chapter 3

6. What are the implications of section 211 of the Companies Act 1993 for the disclosure of material climate-related information in annual reports?

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[3] Particularly in light of Chapman Tripp's legal opinion as prepared for the Aotearoa Circle.

[4] See, in particular, s 211 (and onwards) of the Companies Act 1993, the sections covering reporting and disclosure in section 4 of both the New Zealand Stock Exchange (NZX) Corporate Governance Code, and the Financial Markets Authority in its Corporate Governance Handbook..

In particular, section 211 of the Companies Act 1993 requires the disclosure of information material to an organisation's business. There is no exemption from this requirement for public entities nor Financial Market Conduct (FMC) reporting entities. In the context of the climate emergency, it naturally follows that all businesses need to assess whether their operations will be impacted materially to determine whether appropriate actions need to be taken subsequently. To the extent that material impacts are identified, section 211 of the Companies Act 1993 requires disclosure of this information to users (ie investors in the listed entities and financial services organisations as covered by the discussion document). We note that this perspective aligns with the legal opinion prepared by Chapman Tripp prepared for the Aotearoa Circle.

For completeness, and as noted above, the existing nature of this disclosure obligation raises the question about the lack of compliance (or enforcement).

7. What are the implications of the NZX Listing Rules for the disclosure of material climate-related information by (a) equity issuers, and (b) debt issuers?

Similar to section 211 of the Companies Act 1993, the NZX Listing Rules also require the disclosure of information material to an organisation's business. Again, in the context of the climate change emergency, it naturally follows that organisations are required to ensure that investors are sufficiently informed of the resulting impacts.

We note that the NZX Listing Rules, and associated commentary, have been refreshed recently as at 1 January 2019. These Rules are themselves influenced by a similar publication released by the FMA (the Corporate Governance Handbook), which notes that the NZX Listing Rules are considered to be primary guidance with respect to the governance of listed entities. The FMA's Corporate Governance Handbook instead focuses on non-listed companies and other entities with significant impact on the New Zealand market and with a resulting obligation to disclose information material to an organisation's business.

Given the relatively infancy of the NZX Listing Rules (and associated guidance from the FMA), we consider that it is too soon to assess the effectiveness of these rules on reporting although their introduction again raises question about the lack of compliance (or enforcement) of the same obligations under the Companies Act 1993.

We also note that the ESG Guidance Note, as referred to in the discussion document at paragraph [76], makes specific reference to climate risk and TCFD (although we note that this reference and the NZX Code more broadly does not currently require disclosure of all the information as recommended by the TCFD). On this basis, we consider it may be more efficient for regulators to provide more explicit guidance and / or requirements in the NZX Code and FMA Corporate Governance Handbook on the information required to be disclosed about climate-related risks and opportunities. This would also reduce the regulatory complexity for business by leveraging existing requirements.

8. How should proposed adaptation reporting under the Climate Change Response (Zero Carbon) Amendment Bill and the climate-related financial reporting disclosures proposed in this discussion document best work together?

In our view, the purpose of the Climate Change Response (Zero Carbon) Amendment Act 2019 (as now enacted at the time of writing) is positioned differently from that of the discussion document, although still within the sphere of addressing the climate change emergency.

The Climate Change Response (Zero Carbon) Amendment Act 2019 is geared towards enabling New Zealand to meet its obligations under the Paris Agreement, whereas the discussion document is considering how best to provide investors with climate-related financial information, and in turn influence business decision making.

We expect that some organisations will be required to report under both regimes. As such, we consider that these organisations should be able to do so in a single report (particularly given the likely overlap in information required by each regime). That is, climate-related financial disclosures should be expected in a way that would not create unnecessary further work for organisations already subject to adaptation reporting under the Climate Change Response (Zero Carbon) Amendment Act 2019.

For completeness, we also note that TCFD recommendations are focused on the risks and opportunities of climate change on organisations. As such, these recommendations do not impose any requirement to include details of the action plans developed to address any matters arising from the disclosures themselves.

Chapter 4

9. Do directors' legal obligations in New Zealand result in consideration, identification, management and disclosure of climate-related risks?

As noted above, yes, we consider that directors have pre-existing legal obligations with respect to climate-related risks.

For completeness, we note similarities between the legal opinion prepared by Chapman Tripp for the Aotearoa Circle and the approach in Australia. Following the release in 2016 of the director's opinion by Noel Hutley QC and the TCFD recommendations, the Australian financial regulators are being:

- Consistent in their messaging that directors must be considering climate-related risks and the impact of these risks on their business
- Clearly stating that all risks (financial and non-financial) can have financial consequences;
- Encouraging the use of the TCFD recommendations to aid disclosure in annual reports; and
- Engaging in monitoring and enforcement activities.

10. Do you agree with the legal opinion prepared for the Aotearoa Circle?

Yes, we agree with the legal opinion prepared by Chapman Tripp for the Aotearoa Circle. We note that it raises additional questions (as noted above) about why, despite the existing legal environment and director fiduciary duties, climate risks are not being properly considered and disclosed.

Chapter 5

A – status quo versus new mandatory requirements

11. Do you favour the status quo or new mandatory disclosures?

We note that the discussion document, as it stands, presents the status quo as voluntary. However, based on our comments above, we consider the status quo should instead be considered 'mandatory but not happening in practice'.

On this basis, we strongly recommend that regulators first address why reporting under the status quo is not taking place, before looking to implement an entirely new regime – which may then face these same issues. Where directors and other business leaders lack awareness of the risks and opportunities presented by climate change, a new regime could potentially result in 'boilerplate' disclosures. These would provide limited useful information to investors and would do little to achieve the stated objective, where businesses routinely consider climate change in their decision-making process.

In our opinion, incorporating the TCFD recommendations in existing disclosure requirements (as intended by the TCFD) and instead focusing effort and resource on awareness raising, education and enforcement could result in a better outcome for New Zealand in addressing our share of the climate change emergency.

12. If a mandatory approach is adopted, do you agree with the Productivity Commission that a mandatory (comply-or-explain) principles-based disclosure system should be adopted?

We note the principles-based approach recommended by the Productivity Commission in its final report (recommendation 7.4) did not specifically mention the TCFD recommendations, given that these

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disclosures (forming the basis of the proposals in the discussion document) are not principles per se and are more prescriptive in nature. That is, the proposal of mandating the reporting of the TCFD recommended disclosures would be a disconnect from the underlying principles-based approach.

13. If the status quo is retained, how can government and investors be confident that risks would be routinely considered in business and investment decisions?

In line with our earlier comments, better implementation of (and therefore confidence in) the status quo relies both on education and enforcement. As such, to the extent that the status quo is retained (which, in our view, is preferable), regulators will need to consider how best to raise awareness and understanding of the climate-related risks and opportunities for New Zealand's businesses through education and use of monitoring and enforcement powers in a way to encourage proper disclosure. Retaining the status quo ensures disclosure obligations extend beyond climate-related risks to ensure a balanced approach to risk management with respect to the range of social issues and provide for greater information flows and transparency within the market. We note, for completeness, that this interconnected approach to business risks is also referenced in and supported by the World Economic Forum's 2019 Global Risks Report. Further, retaining the status quo allows for greater flexibility as investor knowledge and requirements for information change along with the perspectives and global learnings relating to climate-related financial disclosures.

B – disclosures that would satisfy a 'comply' requirement

14. Do you consider the TCFD framework to be best practice in relation to climate-related financial disclosures?

Yes, but we note that the TCFD recommendations are not in themselves a framework but rather a starting point for determining climate-related information that might prove useful to investors (as mentioned in our response to question 1).

15. What are your views about whether the TCFD's recommended disclosures will provide useful information to institutional investors and other users?

Taken at face value, the TCFD's recommended disclosures do appear to provide information useful to institutional investors and other users. However, we note that while the TCFD recommendations were released in June 2017 and are currently supported by around 1,000 organisations, these are yet to be fully implemented by a jurisdiction (at the time of writing). As such, even with the examples provided by early adopters, the reporting process is still maturing alongside investor expectations We note the United Kingdom has indicated it will consider mandatory TCFD disclosures in 2022 if there is not significant voluntarily uptake before then.

16. Do you think the proposed disclosure system will encourage disclosing entities to make better business decisions?

In line with our comments made above, without sufficient and appropriate education, awareness and enforcement (the latter in the long run), the proposed disclosure system is unlikely to encourage changes in organisational behaviour.

17. Is the definition of materiality in the IASB Conceptual Framework for Financial Reporting appropriate for this purpose?

We note that using this definition would be consistent with the approach ultimately recommended by the TCFD. However, we also note that this definition also raises a wider question about how best to determine the materiality of information that is typically non-financial and forward looking.

C – when it would be acceptable to explain

18. What comments do you have on our proposal that non-disclosure would only be allowable on the basis of the entity's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why?

Paragraph [104] of the discussion document notes the TCFD recommendations are “principles-based and flexible, and there are no reasons to depart from [them]”. The TCFD recommendations arise from a risk and governance focus, rather than a compliance focus. To the extent an entity is not operating in an identified key impacted sector and a climate-related matter does not have a material impact on the business, an obligation to disclose strategic plans, metrics or targets does not arise. As such, non-disclosure from this risk and governance perspective of the TCFD recommendations would still occur on a principled basis. In our opinion, non-disclosure of the TCFD recommendations from a compliance perspective (ie mandating the disclosure of the detailed and discrete TCFD recommendations themselves) would therefore not be principled based.

19. What are your views about providing a transition period where incomplete disclosures would be permissible?

A transition period is critical to full TCFD adoption – particularly noting that the largest multinationals currently in the process of adopting the TCFD recommendations have typically established a three-year roadmap for doing so. Most New Zealand entities would be substantially smaller in scale and therefore less likely to have resources available to ensure adequate disclosures of climate-related financial information.

In addition, to support a transition period, guidance would also need to be required to clearly define ‘incomplete disclosures’. Given the proposed approach is principles-based, ‘incomplete disclosures’ could contravene the underlying principles unless clear guidance is provided as to how and when this is not the case. Alternatively, if the proposed approach is actually to require the 11 specific recommended TCFD disclosures, guidance should come in the form of prescribing which disclosures are required from the start and which can be added post the transition period.

20. If there is to be a transition period, what are your views on it being for one financial year?

In the same vein as our comment above, a one financial year transition period is likely to present significant challenges for entities lacking the resources to ensure adequate disclosures of climate-related financial information (particularly given existing reporting and governance requirements). Entities that are in the process of implementing the TCFD recommendations have shown that doing so requires more than a single financial year.

As such, we recommend that the transition period be two years (and therefore covering three financial reporting periods).

D – who would it apply to?

21. Should all of the following classes of entity be subject to mandatory (comply-or explain) climate-related financial disclosures: listed issuers, registered banks, licensed insurers, asset owners and asset managers?

The TCFD recommends all listed entities or those with public debt implement the recommendations – that is, entities as listed on the NZX. We note that the TCFD is sector focused, and considers both the financial market (ie banks, insurance companies, asset owners and managers) and non-financial markets (split into four sub groups of 1) energy, 2) transportation, 3) materials and building, and 4) agriculture, food and forest products).

Given the nature of New Zealand’s market, the classes of entities as listed in the question would be reasonable.

With respect to registered banks and licensed insurers, we consider that an allowance should be made for reliance to be placed on the parent entity’s report (including Group specific scenario analysis) as support, to the extent that this is deemed appropriate (and less onerous from a compliance perspective) by New Zealand management. This allowance would recognise that aspects of governance and risk management may take place at a group level, particularly with respect to broader externalities like climate change, and would significantly lower the burden of compliance for these entities who may not be privy to the wider governance and risk management process being undertaken (due to size and hierarchical reporting chains). Further, this allowance would mean that New Zealand level company resources are not devoted to the exercise of separating detail relating to the New Zealand operations from those of the Group (particularly given the existing challenges with quantifying climate-related risks and opportunities).

22. Should any other classes of entity be required to disclose?

Given the proposed approach is to adopt the TCFD's recommended disclosures, we consider that the entity classes should also be aligned to those recommended by the TCFD. For completeness, this scope may not cover all entities subject to the adaptation reporting requirement of the Climate Change Response (Zero Carbon) Amendment Act 2019, which has both a different audience and focus to that of the TCFD's recommended disclosures.

E – small entity exemption

23. Should there be an exemption for smaller entities?

An exemption should align with existing thresholds for preparing general purpose financial reports (GPFR), as this lowers complexity and compliance burdens for organisations.

Despite this, the following exemptions could be appropriate:

- An exemption on the basis of sector (similar with comments made by the TCFD); and / or

  An exemption on the basis of the relative size of the New Zealand entity in comparison with the Group. As noted above, there are likely to be instances where the New Zealand entity is not privy to the governance and risk management processes being performed and that, as a result, may want to leverage existing reporting efforts being made at the Group level. While we consider that, ideally, the Group level information should be available to businesses, we also note that, where the New Zealand entity is significantly smaller (or perhaps operating differently due to the market), using the Group-prepared information is likely to be misleading. As climate-related financial disclosures would be the only type of local disclosure, the result would be an undue focus on climate-related risks and opportunities with respect to the New Zealand operations (despite the existence of other risks such as, in the example of banks or insurers, cyber security, and conduct or earthquake risks).

24. If there were to be an exemption:

  a. What criterion or criteria should be used: annual revenue, total assets, a combination of the two, or some other measure or measures?
  b. Which dollar amount or amounts would be appropriate?
  c. Should there be a requirement to adjust for inflation from time-to-time?

As noted above, any exemption should align with existing thresholds for preparing GPFR or be determined on the basis of sector or relative size of the New Zealand entity in comparison with the Group.

F – where disclosures would be made

25. What are your views about our proposal to have a stand-alone climate-related financial disclosure report within the entity's annual report?

A standalone report within the annual report does not make sense, but we assume that the discussion document intends that the disclosures are made in a specific section of the annual report. We note that including these disclosures within the annual report would fall within the application of both section 211 of the Companies Act 1993 and the NZX Code, again raising questions about the need for an additional reporting requirement (as commented on above).

Regardless, we support the inclusion of information within an organisation's core 'financial filings' as referred to by the TCFD. With respect to listed issuers, registered banks, licensed insurers, asset owners

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and asset managers (ie the proposed covered entities), we note that 'financial filings' would typically include GPFR, rather than a wider annual report.

For completeness, the Australian Accounting Standards Board (AASB) practice note provides some guidance to support the inclusion of (and subsequent assurance of) climate-related disclosures in financial statements.[5] The guidance notes that climate-related risks could affect the general presentation of financial statements, impairment and fair value of both tangible and intangible assets, financial instruments as well as provisions and contingent liabilities and assets.

On this basis, we are concerned that the introduction of a new regime revolving around climate-related financial disclosures could result in instances of duplication of information. Ideally, the reporting regime should allow for sufficient flexibility for organisations to report information as and where required.

26. What are your views about providing for disclosing entities to include cross references or mappings within that report to assist users to find relevant information?

At the outset we note that the entities currently adopting the TCFD disclosures have done so using different approaches. As such, we consider that a New Zealand-specific reporting requirement should continue to allow for similar flexibility. For example, some entities include their TCFD related disclosures in one place within the annual report (although reference is typically made to a separate report detailing scenario analysis, assumptions and other supporting detail). Other organisations incorporate the TCFD disclosures within relevant sections of the annual report, eg risk and governance and support this with a TCFD roadmap to illustrate where the TCFD recommended disclosures are located.

Additionally, this flexibility will ultimately allow for organisations to incorporate other types of risk disclosures alongside climate-related risk disclosures (aligning with the objective of integrated reporting).

27. What are your views about requiring explanations for non-compliance to be included in the annual report?

This requirement would also align with the approach taken in the NZX Code – again, raising a wider question as to why the proposal in the discussion document does not seek to address the lack of application of the NZX Code (given its latest refresh was in 2019) but rather to introduce another regime.

G – Independent assurance

28. Should there be mandatory assurance in relation to climate-related financial disclosures?

At the current time we do not consider that mandatory assurance should be included although we consider that this should be revisited in future. We note that as part of an audit of a GPFR, an auditor must read the 'other information' (financial or non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report) and consider whether there is a material inconsistency between the other information and (i) the financial statements; or (ii) the auditor's knowledge obtained in the audit.[6] We consider that this typical situation should remain in place with respect to climate-related financial disclosures (that is, these disclosures should be dealt with in the same way as other non-financial information of the time being).

29. Which classes of information should be subject to assurance if it were to be mandatory?

We do not consider that different classes of information should be subject to assurance beyond existing requirements with respect to other information included in the entity's annual report as mentioned above. Creating additional assurance requirements would add a layer of confusion and complexity for users.

30. Do you consider that assurance should be required in relation to GHG emissions disclosures?

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[5] See Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2, which was also internationally recognised by the International Accounting Standards Body (https://www.ifrs.org/news-and-events/2019/11/nick-anderson-ifrs-standards-and-climate-related-disclosures/)
[6] See ISA (NZ) 720 *The Auditor's Responsibilities Relating to Other Information,* issued by the NZAuASB.

In the context of the Climate Change Response (Zero Carbon) Amendment Act 2019, we note that the lack of robust data underlying the emission trading scheme could be addressed via a specific assurance engagement in relation to GHG emissions.[7]

However, the TCFD recommendations address climate-related financial disclosures more generally, and therefore assurance over GHG emissions information should be considered separately, particularly through the lens of obligations under the Paris Agreement (which was a driving force of the Climate Change Response (Zero Carbon) Amendment Act 2019).

31. Is limited assurance the only practicable approach in relation to TCFD disclosures, or is reasonable assurance also feasible?

At this stage, we consider that limited assurance is the only current practicable approach. We note that some aspects of the TCFD recommendations (such as scenario analysis) have inherent limitations that restrict the ability to obtain reasonable assurance, particularly given the level of judgment and assumptions required. Further, the reporting of climate-related financial disclosures is still in its infancy, and the market is yet to determine exactly how it expects the information to be presented.

As noted above, the AASB/AuASB practice note provides some guidance to support the inclusion of (and subsequent assurance of) climate-related disclosures in financial statements.[8] To the extent that climate-related financial disclosures move from the annual report into the financial statements, the underlying assumptions made would themselves be subject to reasonable assurance (and therefore, whether this is practical from an assurance perspective should be considered).

32. If we do not introduce mandatory assurance when a disclosure system is enacted, should it be reconsidered in the future?

There is no demand currently for this information to be assured, particularly as reporting is still maturing (and, as noted above, New Zealand is starting the process from a much lower base). However, market expectations are likely to change over time and, to the extent this is the case, assurance should be considered in the future.

H – Commencement and transition

33. What comments do you have on the proposal to bring the disclosure system into force for financial years commencing six months on or after the date that the regulation is introduced?

Assuming an expected introduction mid-2021 with a three-year transition period, the proposed introduction will be best facilitated by higher levels of awareness and education. Given the urgency, we recommend that education takes place sooner rather than later, regardless of the legislative process. Without awareness, the proposed timeframe is unrealistic given the time and resources that are likely to be required by many organisations to ensure adequate disclosures of climate-related financial information. As noted above, adoption of the TCFD disclosures typically forms part of a three-year plan for multinationals with significant resources and awareness.

On this basis, we would recommend that the government begin a comprehensive education and awareness raising programme to ensure that, by the time the transition period is completed, organisations are providing appropriate information to the market (and for any new challenges to be identified and addressed appropriately).

34. Do you consider that smaller entities should be provided with a longer transition if there were to be no exemption for them? If so, how long should that additional period be?

[7] In accordance with ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements,* issued by the NZAuASB.
[8] See Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2.

Prior to addressing whether a longer transition period is required, we consider the government should first assess the current level of awareness and education among smaller entities and how best to increase this (and the associated timeframe of doing so).

I – Legislative means

35. Do you have any views about the legislative means for implementing new mandatory (comply-or-explain) disclosure requirements?

We appreciate that an Order in Council will enable the introduction of this regime in an expedited manner, considering the broader climate emergency. While we do not have any concerns about the legislative means per se, we do note that this approach is notably different from that taken with respect to other climate response rules (such as the Climate Change Response (Zero Carbon) Amendment Act 2019). As noted above, any new rules to be introduced (regardless of method) need to be done so with reference to existing obligations and regimes. Our concern is that businesses may be placed under multiple requirements and that the importance of proper governance and risk management may continue to go unheeded.

J – role of government

36. Do you consider that there is a role for government in relation to guidance, education, monitoring and reporting?

We consider that the government will and should play a key role in any new regimes. As noted above, lack of awareness and understanding are likely to present significant barriers to adequate implementation of any climate-related financial disclosures and these challenges are best addressed by regulators investing in guidance, education and subsequent monitoring.

37. Are there other activities that a government agency could usefully carry out?

A government agency could provide support with respect to scenario analysis, particularly given that this aspect will be both costly and complex, and likely to present an initial barrier to organisations new to making climate-related financial disclosures. In addition, regulators could also provide support via monitoring and enforcement to ensure the reporting regime is implemented effectively and achieves the desired outcomes.

38. Which government agency or agencies will be best able to carry out these functions?

No specific comment, although we recommend that functions are distributed in a way that best utilises existing efficiencies across government agencies to avoid undue overlaps.

39. What would you need to assist you with a full set of TCFD disclosures?

The establishment of a knowledge database specific to New Zealand (which could be formed through leveraging of information from existing TCFD knowledge hubs, and used to feed back into these hubs), as well as case studies illustrating examples of both reporting and how organisations handled adoption of the TCFD disclosures.

K – related costs

40. What information do you have about the cost implications relating to these proposals?

We do not have a specific response to this question but do note that regulators will need to consider how costs are likely to vary over time, particularly as awareness, education and internal capability changes. In addition, consideration should also be given to the cost to the market in the first few years of adoption.

41. What information do you have about costs for specific types of reporting entities?

No specific comment.

General comments

42. Do you have any other comments?

Please see our general comments above. Given how new the TCFD is and how quickly reporting is evolving in this area, we suggest the reporting requirement is subject to a comprehensive post-implementation review (ideally within the first two or three years) to ensure it remains fit for purpose in the then applicable global reporting landscape.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

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