Response to NZ Government consultation on Climate Change Reporting For Listed Companies and Financial Firms

Climate change creates financial risks and opportunities to a large number of businesses. Currently, these financial impacts are not being adequately considered, valued and reported on within financial markets. This may create further risk for investors, shareholders and pension holders.

The Government is seeking your feedback on a proposal that would require financial firms and listed companies to understand and report on how climate change affects them will impact their business and investments, in a consistent way.

Background
The Local Authority Pension Fund Forum was set up in 1991 and is a voluntary association of 83 local authority pension funds and six LGPS pools, based in the UK with combined assets of approximately £250 billion. It exists to promote the investment interests of the funds, and to maximise their influence as shareholders to promote high standards of corporate governance and corporate responsibility amongst the companies in which they invest.

Response
Our response is to agree with the proposals for new mandatory reporting requirements. These proposals should be widespread and implemented on a comply or explain basis. We agree that the TCFD Framework is best practice for climate related decisions. That the adoption of climate related reporting will improve decision making within the companies and make it easier for investors to accurately quantify long term value of the companies in which they invest.

Detailed response
Q. 1 Is the TCFD Reporting proposed the most appropriate for New Zealand?
Yes

Q. 2 Do You agree With the Conclusions At the End of This Chapter?
Yes, whilst pressure is building from institutional investors the speed of travel will be significantly faster if reporting becomes mandatory.

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

Q. 5 Do you agree with the problem definition?
Yes

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

Q. 12 Do you agree that comply or explain principles be adopted?
Agree

Q. 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?

It will be difficult to ensure risks were routinely considered. In 2007, LAPFF pushed for UK government to make corporate reporting on greenhouse gas emissions mandatory. Mandatory emission reporting was finally put into UK legislation in 2013. This allows for a 'level playing field' for corporate disclosure. LAPFF takes the same position for mandatory TCFD reporting. Mandatory disclosure is further supported by much of the investment industry. In the UK, the Green Finance Taskforce recommended that TCFDs should ultimately be incorporated in UK legislation (3/18 Accelerating Green Finance).

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

There should be less focus on the development of detailed and spuriously precise metrics and more focus on using the information to inform decision making. Reporting of the link between the provision of information and the link to decision making needs to be clear and comprehensive.

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

We consider the disclosures, when fully implemented, will provide a necessary and valuable lens through which a more accurate appraisal of the company's long term value can be quantified. However there must be a direct link between the reporting and meaningful action on the part of companies to reduce their exposure to climate risk.
Q.16 Do you think the proposed disclosure system will encourage disclosing entities to make better business decisions?

Yes

In the UK mandatory carbon reporting that must signed off by the board has been a critical tool for boosting carbon literacy across companies, highlighting vulnerabilities to future risks and increasing the salience of opportunities to boost efficiency and productivity through energy saving or climate change mitigation measures. (Aldersgate Group colation of submissions to UK Government consultations 10/19)

Q17 Is the definition of materiality as laid out by the IASB appropriate?

Yes

Q.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?

On the one hand, this shows a robust approach to trying to ensure widespread compliance. However it is difficult to envisage what organisation would not be materially affected by climate change, whether through physical, liability and transition risks facing the entity or its supply chains. If this option is to be allowed, LAPFF would recommend a minimum of criteria that the entity should respond to, for example to set out for each of physical, liability and transition risks, including supply chains, as to why the entity does not see any materiality in any of these factors as they apply to the company.

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

LAPFF supports such a transition period, again as it would facilitate more widespread compliance.

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

LAPFF supports this position.

Q.21 Should the following be subjected to mandatory disclosures?

LAPFF believes it is appropriate for listed issuers, registered banks, licensed insurers, asset owners and asset managers

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

Private companies could be mandated by their lenders to comply if they are to have access to finance. This allows the banks to manage climate risk whilst also bringing the private companies into the reporting framework.
Q.25 What are your views about our proposal to have a stand-alone climate-related financial disclosure report within the entity’s annual report?

LAPFF supports the information being part of the financial reporting process and set out in the annual report.

This should set out material and long-term regulatory, physical and transition risks of climate change on the business. This information must be subject to board level accountability.

Q.27 What are your views for explanations for non compliance to be included in annual reports

We consider this essential

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

Yes

Q.30 Do you believe assurance should be required in relation to GHG disclosures?

Yes

Q.34 Do you agree that reporting should be required on or after six months after the implementation of the regulation?

Yes

Q.35 Should smaller companies be allowed a longer transition?

Yes

Q.36 Do you believe there is a role for governance on education, monitoring and reporting?

Yes

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

It will be important for the NZ regulator to align closely with the European Commission and other early movers as it considers a fuller review of the NZ reporting guidelines if it is to support coherence and comparability, particularly for multinational firms. Some thought must be given to clarifying regulatory requirements for NZ branches of foreign financial firms.

Questions 4, 6, 7,8, 9,10, 23,24,26,29,31,32,35,38,39,40,41,42

No response offered