Sustainability Accounting Standards Board
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17 December 2019

Re: Climate-related financial disclosures – Understanding your business risks and opportunities related to climate change

Dear Ministry for the Environment:

Thank you for the opportunity to comment to the *Climate-related financial disclosures - Understanding your business risks and opportunities related to climate change* consultation. By way of introduction, I write as the Director of Legal and Policy Outreach for the Sustainability Accounting Standards Board (SASB). SASB is an independent 501(c)(3) not-for-profit organization that issues industry-specific sustainability accounting standards for the disclosure of financially-material information to investors. Using a robust due process with significant market input, SASB has developed standards for 77 industries across 11 sectors. which include, on average, six disclosure topics and thirteen associated metrics.

SASB standards enable standardized disclosure, by companies to investors, of environmental, social and governance (ESG) and other sustainability factors which are likely to be financially material -- thus, meeting investor needs for ESG data that is comparable, consistent, and reliable and enabling investors to make better-informed investment and voting decisions.

SASB supports The Government of New Zealand's efforts to tackle climate-related issues and build a regime on climate-related financial disclosures. After reviewing the paper, we offer the following comments to questions highlighted in bold:

Chapter 1

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

The Sustainability Accounting Standards Board has developed industry-specific disclosure standards that can be used globally by companies seeking to provide investors with decision-useful, comparable information about performance on financially material sustainability issues, including climate risk We believe that the TCFD framework is a highly useful set of recommended disclosures for companies to communicate their management of climate-related risks to investors. The SASB standards can be used as a tool to implement the TCFD framework, specifically by providing industry-specific metrics for the "metrics and targets" disclosures recommended by TCFD.

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

SASB agrees with the conclusion that businesses that identify and manage material climate-related information will be better placed to manage risks and seize opportunities.

Our analysis of climate risk across 77 industries and 11 sectors notes that climate risk is present in almost every industry. Risks, however manifest differently from one industry to the next.

For example, agricultural concerns must manage water as an increasingly stressed resource, oil and gas companies need to properly value reserves in a carbon-constrained world and be prudent about capital expenditures, and commercial banks have to effectively manage the carbon embedded in their loan portfolios.

Market participants have cited a need for practical guidance for companies to use in attempting to fulfill the principles-based recommendations and make the 11 disclosures recommended by TCFD.

SASB and the Climate Disclosure Standards Board (CDSB), two well-established organizations with conceptual alignment with TCFD's objectives, have developed two publications to provide such practical guidance to companies:

The TCFD Implementation Guide - offers practical "how-to" guidance for companies to use SASB standards and the CDSB Framework to take the TCFD recommendations from principles to practice.

The TCFD Good Practice Handbook - provides real-world examples of good-practice, TCFD-aligned disclosure and key takeaways to help reporting companies communicate more effectively with investors on climate risk**.**

Chapter 2

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

Q.4 Should other objectives also be considered?

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

SASB's researchers have found that most ESG disclosures, which include those related to climate change, consist of boilerplate disclosures — generic statements that are not specifically tailored to the individual company, the risks it faces and the opportunities it might have. SASB found that this type of vague, non-specific information was used more than 50 percent of the time when companies addressed a SASB topic in 2017.[1]

Moreover, companies have traditionally disclosed ESG information to their investors and other stakeholders without reference to any generally accepted set of metrics or standards. Even when reporting on similar topics, two companies in the same industry might use different performance metrics or time periods, making it difficult for investors to analyze and compare or normalize that information. For example, a recent McKinsey study found that 85% of investors either agreed or strongly agreed that "more standardization of sustainability reporting" would help them allocate capital more effectively, and

[1] SASB, *The State of Disclosure: An analysis of the effectiveness of sustainability disclosure in SEC filings* (2018) available at https://www.sasb.org/wp-content/uploads/2019/08/StateofDisclosure-Report-web112717-1.pdf?__hstc=105637852.135a89045bd6ea85f68591478e99eb09.1553809423920.1570492048390.1570494269935.17&__hssc=105637852.1.1570494269935

68% of corporate executives either agreed or strongly agreed that standardization would enhance their company's ability to create value or mitigate risk.[2]

Chapter 3

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

Q.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?

Q.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?

Chapter 4

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

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

Chapter 5

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

Q.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?

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?

SASB believes that whether climate-related disclosures should be made mandatory rather than voluntary depends largely on the relevant disclosure laws in a particular jurisdiction and whether existing laws already require the disclosure of material risks. For instance, SASB has taken the position in the United States that companies should be making disclosures of material risks, such as climate change, under existing securities laws.

As a general matter, it does seem that mandates are likely to encourage companies to go beyond boilerplate language and include standardized metrics that provides a more complete picture of long-term value creation. In this regard, mandates that are principles-based, rather than rules-based, can be most useful if they either strongly encourage or require companies to use a private sector disclosure framework that can lead to comparable, high quality reporting. We believe the TCFD recommendations,

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[2] McKinsey & Company, *More than values: The value-based sustainability reporting that investors want* (August 2019). Likewise, a 2016 PwC survey on ESG found that only 29 percent of investors polled were confident in the quality of ESG information they were receiving and only eight percent of investors thought that existing ESG disclosures allow for comparison across companies and peers. PricewaterhouseCoopers, *Older and wiser: Is responsible investment coming of age?* (2016) available at https://www.pwc.com/gx/en/sustainability/publications/assets/pe-survey-report.pdf Numerous other reports and studies have discussed the general topic of the growing interest in better ESG disclosure. See, *e.g.,* Deloitte, *Heads Up: Sustainability Disclosure Goes Mainstream* (September 24, 2019).

along with the SASB standards, would be particularly useful to companies because both the TCFD recommendations and the SASB standards were developed through a consultative process.

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

SASB supports the TCFD framework as a decision-useful set of recommended disclosures for companies to communicate their management of climate-related risks to investors.

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

SASB is supportive of the TCFD's focus on financially material aspects of climate-related risks and opportunities, as well as the structured nature of the recommended disclosures, which will facilitate comparability by ensuring reporters provide consistent information to financial markets. With respect to metrics and targets, the TCFD's Implementation Guidance referred to standards-setting organizations such as SASB that provide industry-specific metrics to measure climate-related performance factors. This will enhance the comparability of the reported information across companies and therefore the usefulness to investors for making decisions.

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

SASB believes that the disclosure of financially material, standardized, and comparable sustainability information, including information related to climate risk, will enable better decision-making both for investors and for reporting organizations because decision-makers can then compare and benchmark performance across reporting entities on factors that are likely to impact the operating performance or financial condition of the reporter.

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

The definition appears to be appropriate for this purpose

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?

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

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

Q.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?

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

Q.23 Should there be an exemption for smaller entities?

Q.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?

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?

SASB believes that, regardless of where the information is disclosed, disclosures on financially material sustainability issues including climate risk, should be subject to internal control and governance procedures similar to what exists for traditional financial reporting.

Q.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?

Cross-references and mappings are useful tools to help users find relevant information, and many existing TCFD and SASB reporters have used this approach.

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

SASB's Standards Application Guidance states that "An entity that omits one or more disclosure topics and/or accounting metrics should disclose the omission(s), as well as the rationale for the omission(s)." We suggest this approach may be valuable for the purposes of consideration of the TCFD recommendations.

Q.28 Should there be mandatory assurance in relation to climate-related financial disclosures?
Q.29 Which classes of information should be subject to assurance if it were to be mandatory?
Q.30 Do you consider that assurance should be required in relation to GHG emissions disclosures?
Q.31 Is limited assurance the only practicable approach in relation to TCFD disclosures, or is reasonable assurance also feasible?
Q.32 If we do not introduce mandatory assurance when a disclosure system comes into effect, should it be reconsidered in the future?

As noted in the TCFD Implementation Guide, published by SASB and CDSB, a key action step companies should take is to employ the same or similar level of quality assurance and compliance approaches for climate-related financial information as what is used for finance, management, and governance disclosures. This may include third-party assurance, which can improve the reliability of the reported information.

The design, implementation, and maintenance of a robust system of internal control over climate-related information can enhance its utility for internal and external decision makers. Meanwhile, external assurance can support businesses in identifying and disclosing significant issue assessment processes and, where practical, involve internal teams in charge of sustainability measurement, valuation, and reporting as well as internal audit, risk management, and related functions.

Q.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?

Q.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?

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

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

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

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

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

SASB, in conjunction with the CDSB, developed two publications in response to company demand for additional examples of effective disclosure to support more widespread adoption of the TCFD's recommendations. These publications include our TCFD Implementation Guide, featuring annotated mock disclosures showing how companies can prepare TCFD-compliant disclosures that meet investor needs using the SASB standards and the CDSB Framework, as well as our TCFD Good Practice Handbook, featuring real-world examples of TCFD disclosures across the G20 highlighting good practices to support company reporting efforts. Response to these publications has indicated that the practical, useful guidance provided by the guides through the use of examples has been helpful to companies seeking to implement the TCFD's recommendations

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

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

Q.42 Do you have any other comments?

Thank you for the opportunity to comment. If you have any questions, please contact Tom Riesenberg, Director of Legal and Policy Outreach at thomas.riesenberg@sasb.org.

Respectfully submitted,

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