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Mr Alex White
Senior policy Analysts
Climate Change
Ministry for the Environment
23 Kate Sheppard Place
Thorndon
WELLINGTON NEW ZEALAND 6143

Dear Mr White

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

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest. CPA Australia welcomes the joint Ministries consultation which if fully acted on will place New Zealand at the forefront of national governments' efforts to embed into regulatory arrangements the recommendation of the FSB's Taskforce on Climate-related Financial Disclosures. CPA Australia's responses to each of the discussion document question is provided in the accompanying Attachment

If you require further information on the views expressed in this submission, please contact Mr Rick Jones, Country Head New Zealand on 9 913 7454 or at rick.jones@cpaaustralia.com.au, or Dr John Purcell, Policy Adviser – ESG, on +61 3 9606 9826 or at john.purcell@cpaaustralia.com.au.

Yours sincerely

GPflugrath

Dr Gary Pflugrath
Executive General Manager
Policy and Advocacy

ATTACHMENT

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

Consistent with the jurisdiction-neutral design and purposes behind the development of the TCFD, the framework is highly appropriate for adoption, and where necessary adaption, to New Zealand's climate-related financial disclosure needs. Moreover, the emergence of TCFD as almost a de facto standard and the numerous endeavours towards alignment with other disclosure frameworks, point further to wide recognition to which New Zealand should be confident.

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

CPA Australia agrees with each of these conclusions and make following specific observations:

- Para. 48.3. This idea of an imperative of testing the proposition as to the presence of a material climate change risk is highly consistent with two further related developments. First, the notion that company directors in discharging their duties of care and diligence in relation to these emerging forms of risk, must be of an inquiring and probing mindset bringing an understand of the company's operating circumstances to their roles. Secondly, as an important reference point, joint guidance issued by the AASB and AUASB[1] fully supports the notion that over and above investor expectations as to climate-related disclosures, directors are obliged to make their own materiality assessment even in the absence of investor expectation.

- Para. 48.4. Additional to the capacity to manage risk and seize opportunities, the underlying wider perspective on the external operating environment is highly consistent with strong tendencies towards long term perspectives on corporate value creation, stakeholder expectations and broader durability/ adaptability of business models.

- Paras. 48.7 and 48.8. Soon to be released research commissioned by CPA Australia is consistent with other studies in confirming widespread support for the TCFD across investors, report preparers and regulators. It also shows wider variability in the depth of reporting across size of corporations, along with industry category influences, and variability in sophistication of reporting. Significantly, the TCFD in its Final Report identified a five-year time horizon (Figure 12 p. 42 Implementation Path) for maturity of financial systems' capacity to effectively price and adjust for carbon-related assets and risk. As such, the incremental and measured approach adopted in the Ministry of the Environment's discussion document is highly sensible.

- Para 48.9. Additional to the observations about required critical mass of climate-related financial disclosures, CPA Australia's view is that it is vital to consider the constituency and coherence in climate-related and wider

[1] https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finished.pdf

environmental government policy, which communicates to business, and the wider economy and society at large, transformational imperative and opportunities.

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

The objective as stated is sound. It should not be treated as purely aspirational and should form a basis for driving disclosure practices and business/ economic transformation. Similarly, such stated purpose should be a reference point and inform other aspects of environment-related policy with which business interacts, say, in relation to biodiversity and ecosystem.

4. Should other objectives also be considered?

As a point of reference to wider policy context, CPA Australia suggests it might be beneficial to mention in this objective, the manner in which financial market transformation supports international and national endeavours of achieving net zero emissions and limiting global warming under the UNFCCC.

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

CPA Australia agrees that the problem definition encapsulates the dilemma and challenges in driving recognised imperatives for development of non-financial and other forms of ESG reporting. We make two observations which we hope might guide choices in achieving the desired transformation.

- It is erroneous to view and treat financial and non-financial disclosure as discrete. In its Final Report, the TCFD identified accounting considerations as a major aspect of future work. Research conducted by CPA Australia identified numerous technical attributes within both financial reporting and auditing standards applicable to the recognition and treatment of climate-related risks within corporate disclosure. Further, soon to be released research commissioned by CPA Australia illustrates the extent to which government emissions reduction policy constitutes the form of transition risk affecting accounting assessments of future financial prospects. With pressures currently being applied to drive financial reporting and auditing towards appropriate climate-related disclosures in the immediate term, it is now widely acknowledged that the TCFD has emerged as the preferred reference.

- Relatedly, it should be recognised that the dichotomy between mandated and voluntary approaches to driving non-financial disclosures in not a ‘bright line’. Regulation in this important area of disclosures development need not be excessively prescriptive accompanied by an unduly assertive system of sanctions. Our views in these regards are elaborated elsewhere in our response to the Discussion document (Question 12 concerning comply-or-explain). However, it is suffice to say that proactive and accommodating regulation in relation to these matters is an important feature in allaying concerns around litigation risk and disclosures of commercially sensitive information.

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

CPA Australia’s preliminary view is that section 211, in the manner discussed in the *Discussion document,* is too widely written and general in nature. Without more detail, it is unlikely to prompt companies and their directors to use it as a vehicle for communication and discussing management of climate-related risks. Moreover, the nature of climate change impacts accounting assumptions as to future financial prospects and cash flows. Section 211 does not seem to either capture or direct attention to this key element in intended climate-related disclosures.

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?

As described in the *Discussion document,* the various limbs of the New Zealand corporate governance framework established under the NZX Listing Rules reflect many elements of internationally accepted best practice. CPA Australia concurs with the limitations of these general principle-based rules when applied to the specific, and in many instances highly complex, nature of climate change impact (para. 79). There is a strong argument for the overlay of these requirements with a suitable framework for climate-related financial disclosure within which there is articulated more specific approaches to the governance of climate-related risks and opportunities.

Nevertheless, as described in the Taskforce's 2019 Status Report, implementation of TCFD Recommendations is a 'Journey' and there remain many challenges and uncertainties, numerous of which are canvassed in the Ministries' *Discussion document.* As such, CPA Australia's broad response to the consultation proposals is highly supportive, though urging a cautious incremental approach cognisant of international developments, whilst acknowledging the growing urgency of emissions reduction and associated processes of adaptation.

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?

CPA Australia's general view on such matters is that where alignment and rationalisation can be achieved, this should be pursued – from perspectives of minimising cost, and regulatory and administrative burden.

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

A member of CPA Australia's Policy and Advocacy team is represented on the CCLI Advisory Board, and CPA Australia concurs fully with assessments of liability risk made across each of the four concerned common law jurisdictions examined by the CCLI. We provide the following observation:

- It may well be that directors' duties and the broad scheme of corporate law is not the only branch of law likely to develop in application to new circumstances or identification of new principles and rules, driven in response to the threats of climate change and associated environmental harms. Both governments and corporations need to be cognisant of the potentially disruptive impact of developments which arises under the umbrella of international public law. The International Criminal Court, which is created under Article 5 of the Rome statute, has a specific narrow jurisdiction limited to the most serious crimes recognised by the international community, including genocide, crimes against humanity and war crimes. Limited but strong lobbying is taking place to include an international crime of ecocide, defined as "the extensive loss, damage or destruction of ecosystems(s) of a given territory, whether by human agency or by other causes, to such an extent that peaceful enjoyment by the inhabitants - - - has been or will be severely diminished.'' Relating this back to developments driven by the TCFD, the recommendations at a minimum provide a robust basis for understanding the character of physical risk and transitional challenges, so that whilst not a panacea, they at least provide a framework of analysing, and potentially, managing complexity.

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

CPA Australia offers no response to this question.

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

As noted in our response to Question 7, CPA Australia believes continuity of the status quo to be untenable. The various matters identified in para. 94 of the *Discussion document* do not give confidence that market forces and notions of enlightened self-interest will alone achieve the imperatives expressed in the UNFCCC COP 21 Paris Agreement. Likewise, the work of the TCFD itself, and the numerous positive responses from central banks, provides compelling evidence that robust climate-related financial disclosures are essential to market transparency, capacity to price risk and allocate financial capital accordingly.

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?

CPA Australia agrees with this as the preferred approach. Nevertheless, as discussed in the *Discussion document*, and our responses, the challenges are numerous given both the complexity of the subject matter and the still seminal stage in disclosure practices. It is clear that the New Zealand government is at the forefront of determining how its own policy and statutory levers can be applied to a regulatory framework within which comprehensive TCFD reporting can take place.[2]

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?

Refer CPA Australia responses to Questions 7, 11 and 12.

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

Over and above a range of anecdotal evidence showing TCFD as the ‘go to’ framework of climate-related financial disclosures, CPA Australia’s soon to be released research shows TCFD to be a significant force for corporate reporting transformation, driven down within companies by Boards and/ or C-suite, and up, by sustainability teams.

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

CPA Australia refers the Ministries to the TCFD 2019 Status Report where in section C. *Adoption and Use of the TCFD Recommendations* an analysis of user perspectives is provided (C.4 pp. 57 – 59). Clearly, across the four ‘pillars’ of the Framework, there is very clear sentiment of ‘somewhat’ or ‘very’ useful, with very few views that the

[2] Refer Section F Initiatives Supporting TCFD on the TCFD 2019 Status Report – 3. Government and Regulatory Efforts (pp. 113 – 116).

disclosures are not useful. Within the disclosure structure usefulness preferences centre around the elements of risk management and identification of relevant goals and targets.

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

Referring to the TCFD 2019 Status Report, brief reference is made to areas of desired improvement to disclosure (Figure 65 page 60). Interestingly, the leading theme is to provide more clarity on financial impacts of climate-related issues on the organisation. This, CPA Australia believes, provides ample evidence of an expectation, and reality, that disclosures can improve business decisions. Nevertheless, elsewhere in the Status Report reference is given to preparer reasons for implementing the Recommendations, amongst which the 'strongest' is reputational benefits; marginally ahead of investor requests (Figure 56 page 54). In these contexts, CPA Australia believes it important that in any processes of implementation the Ministries monitor for a tendency for undue biasing in disclosures, which might mask proper assessment of the nature and magnitude of climate-related risks.

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

CPA Australia agrees that the definition is appropriate. We note also a reference in the TCFD 2019 Status Report that timeframes for manifestation of material climate-related risks seem heavily concentrated in the immediate and near terms (figure 57 page 55). As to whether this is evidence of reluctance or inability to apply longer term perspectives may be a matter for consideration in any monitoring activities.

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?

CPA Australia agrees with this proposition though would encourage ongoing requirements for risk self-assessment given the dynamics of climate change as an existential threat impacting on businesses and wider economy, mindful also of changing regulation targeting emissions reduction. Further, it is important that such assessment be made with reference to both investor expectations and awareness of possible developments in supply chains external to the firm itself, which may threaten business model viability.

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

As a matter of practicality, CPA Australia sees this as a sensible approach. The Ministries will be aware of the challenges of capacity building and the reality that those companies even remotely prepared to adopt the TCFD Recommendation will encounter the need for internal realignment of systems and responsibility. The evidence to date shows a strong tendency for organisational ownership within sustainability teams and location of disclosures to be within sustainability reports rather than 'annual filings'.

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

CPA Australia does not offer a definitive response to this Question believing the way forward warrants careful engagement with the business community and likely affected entities.

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?

CPA Australia recognises these classes of entity as vital to the financial market's capacity to respond to the challenges of pricing and otherwise aligning participants' portfolios to the impact of climate. Referring to both para. 106.1 of the *Discussion document* and Figure 5 of the TCFD Final Report, CPA Australia believes it essential that industries within both the finance sector and the 'real' economy engage in TCFD reporting where materially relevant. Wider economic transformation warrants such approach along with achieving greater coherence and synergy of reporting between the providers and users of financial capital.

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

Refer CPA Australia response immediately above.

23. Should there be an exemption for smaller entities?

CPA Australia agrees.

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 an initial reference point, CPA Australia suggests the financial reporting threshold applied by the XRB, along with reference to any of the adjustments made over time.

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

CPA Australia believes that this should be adopted as the long term goal recognising that a significant amount of capacity building will need to take place. This may perhaps be a matter to be embedded in transitional arrangements, though without undermining the preferred goal that might be set with reference to the TCFD's own time horizon of expected transformation. This staged approach may also allow for assessment of the Ministries' own regulatory approach, along with advancement in the interrelated technical developments in both audit and corporate reporting. Furthermore, it is important to acknowledge the consequential implications for external assurance, noting the obligations under ISA 720 for consideration of material inconsistencies between this 'other information' and the financial statements.

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?

As a matter of principle, CPA Australia is in favour of such approaches subject to appropriate ease of navigation and signposting, and within the constraint that such disaggregation does not undermine coherence and usefulness of a body of information that should be viewed in integrated terms.

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

CPA Australia agrees with this proposal as outlined in para. 114 of the *Discussion document* and would also urge that contingency be made to distinguish between those entities assessing themselves as not having a material climate-related risk and those who have such exposure but are unable (or are reluctant) to provide meaningful elaboration. These latter type of entities should be required to identify a timetable for intended compliance.

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

CPA Australia acknowledges the veracity of each of the points of contention and uncertainty outlined in paras. 117 to 132, which further encapsulate the current state of development in this area. To this, we add the following observations as to ancillary developments which will heighten expectations as to an effective response in external audit processes and the provision of assurance services:

- Research undertaken by the UK-based environmental advocacy law firm ClientEarth, identifies the potential of professional liability risks for auditors across both disclosures in annual accounts (accounting number and notes) and 'other information' (narrative discussion and analysis information).3

- Further, also in the UK, asset managers are asserting significant pressure on audit firms in terms of concerns as to the latter's capacity (willingness) to challenge commodity price assumptions built into accounting assessments by entities regarded as highly related to/involved in the fossil fuel industries.4

In terms of the critical matter of mandatory assurance of TCFD information, CPA Australia concurs with the stance adopted by the two Ministries, rather than that of the Productivity Commission. Nevertheless, the points we raise above point to a rapidly evolving position. Implication to be considered by governments and regulators include matters of ensuring market confidence in the audit process around risk of disruption, skills and competency, and the attributing of reasonable share of liability for material misstatements in corporate disclosures.

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

A review of the structure of the TCFD recommendations (even at the summary level shown in Figure 4 page 14 of the Final Report) shows a wide diversity of information in terms of internal organisation source and ownership,

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[3] An application of ClientEarth's analysis to Australian conditions can be found at https://www.cpaaustralia.com.au/professional-resources/esg/climate-change-and-risk-policy

[4] https://www.reuters.com/article/us-climate-change-accounts-exclusive/exclusive-big-four-auditors-face-investor-calls-for-tougher-climate-scrutiny-idUSKBN1Y21XK

granularity of quantifiable aspects, governance versus strategic versus operating, etc.. CPA Australia suggests that over time in jurisdictions where TCFD is being taken up, deeper understanding will evolve as to those elements either currently or can reasonably be predicted as being able to be subject to reasonable assurance. From a regulatory and public policy perspective, we see a role for national governments in an evolving understanding of how aspects of applicable laws overlaying financial market conduct, corporate behaviour and disclosure can be brought to bear in driving the efficacy of climate risk related information.

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

CPA Australia believes this should be required. Aside from the *Discussion document's* reference to ISAE 3410, there are requirements under Australia's National Greenhouse and Energy Report Act 2007 (Cth.) for assurance.

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

CPA Australia believes that the long term goal should be for reasonable assurance of non-financial information including what ultimately would be components of a TCFD-based disclosure.

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

Consistent with our responses above, this matter warrants ongoing monitoring by government recognising that the factors which will impinge on developments are not exclusively within the realms of TCFD; and will be dictated by both wider advancements in non-financial reporting along with market and regulatory forces affecting the audit and assurance profession.

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

CPA Australia offers no response to this question.

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?

CPA Australia offers no response to this question.

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

Whilst CPA Australia does not comment on matters which may well go to the heart of constitutional underpinnings to the capacity for agencies, as opposed to the legislature, to promulgate mandatory rules of disclosure, we see this question as one of the most significant in the current consultation process. Our inclination is to support the position favoured by the Ministries, as identified in paras. 128 and 129 (legislative instrument empowering responsible Minister to make necessary Order-in-Council), rather than the position proposed by the Productivity Commission (Order-in-Council extending the powers of the XRB). Our view is based on the following reasoning:

- Understanding means by which the financial reporting Framework and financial reporting standards are applied to reflect material impact of both physical and transition climate-related risks and opportunities is at an early, but rapidly evolving, stage of development. We see it preferable at this junction that these streams of development, though interrelated, be treated separately from a regulatory perspective.

- At various points the Discussion document makes reference to the work of the Corporate Reporting Dialogue's Better Alignment Project, along with other initiatives that coalesce around TCFD as a basis for achieving some level of harmonisation and rationalisation across the 'architecture' of corporate reporting. From the regulatory perspective, we see it as appropriate to maintain a delineation of responsibility for driving TCFD until such time as future direction of these institutional developments becomes clearer.

- Relatedly, there are apparent signs of serious consideration being given to advancements in the international governance structures affecting the oversight of non-financial reporting development, broadly to reflect that applied to financial reporting, generating a level of conceptual harmonisation.[5] Whilst likely that a significant amount of time will likely lapse before these matters are determined, we believe it preferable to establish and retain a dichotomy of responsibility between highly formalised financial reporting standard setting and the establishment of an institutional underpinning supporting TCFD implementation.

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

Notwithstanding our response immediately above strongly urging a jurisdiction-appropriate mechanism for driving preparer engagement with TCFD, we see a further necessary element centring on processes of engagement to ensure improvement in practices necessary to underpin investor, and wider stakeholder, confidence. As such, CPA Australia believes it is necessary that, whichever the agency or Ministry which assumes responsibility for promulgating the TCFD reporting regime, they be adequately resourced to fulfil these necessary accompanying tasks.

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

Within the TCFD Recommendations there is supplemental guidance for particular non-financial groups recognised as likely to be subject to physical and transition risks associated with constraints on emissions and other interrelated environmental factors. This are in addition to the major categories within the finance sectors deemed critical to early and effective response to climate-related risks through pricing and capital allocation. CPA Australia suggests there may be a role for a suitably positioned and resourced government agency to adapt and promote to New Zealand purposes the TCFD guidance for the agriculture, food and forest products sector; given that carbon emissions characteristics of this sector, as well as its significance to the New Zealand economy.

[5] See for example https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/

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

Those who have initiated this consultation would, in the first instance, seem the most appropriate.

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

CPA Australia offers no response to this question.

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

CPA Australia offers no response to this question.

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

CPA Australia offers no response to this question.

42. Do you have any other comments?

CPA Australia offers no response to this question.