C1 - Public

Guardians of New Zealand Superannuation Response to:

Climate-Related Financial Disclosures Discussion Document

Thank you for the opportunity to provide feedback on the Climate-Related Financial Disclosures Discussion Document.

The Guardians of New Zealand Superannuation is a Crown entity that manages and invests the New Zealand Superannuation Fund to help pay for the increased cost of universal superannuation entitlements in the future. As at 30 November 2019, the Fund totalled $45.5 billion of which approximately $6.3 billion is invested domestically, including investments in New Zealand's listed equity market. Further information with respect to our approach to investing in New Zealand is available here.

We welcome the opportunity to provide feedback on the government's proposal, and to contribute to the discussion on climate-related financial disclosures.

As a long-term investor in New Zealand listed companies we are committed to active ownership and the promotion of good governance for the overall health of the capital markets. In our view, good governance is an indispensable perquisite for successful company performance over the long-term.

In particular, we expect that Boards and executive teams are active in considering how to account for the changing and, to some extent, uncertain risk profiles of the companies they are responsible for, including climate-related risks and opportunities.

Our Climate Change Investment Strategy is, to a large extent, reliant on the climate-related disclosures made by companies. Investee company disclosure provides us with the information we need to ensure that the risks and opportunities stemming from climate change are factored into our investment strategies and ownership practices.

However, carbon-related information that can help us to make informed investment decisions is often absent in the New Zealand market. Some types of quantifiable data, such as carbon emissions intensity metrics, where absent, is estimated or proxied against an industry benchmark by third party agencies. Actual data would be a considerable improvement.

We see the four main pillars of the Task Force on Climate-related Financial Disclosures (TCFD) Framework: Governance, Strategy, Risk and Metrics, as providing a robust starting point from a disclosure perspective.

Chapman Tripp's legal opinion on the question: "To what extent (if at all) are New Zealand company directors and managed scheme providers permitted or required to take account of climate change considerations in their decision-making?" found that 'directors and scheme managers must assess and manage climate risk as they would any other financial risk'.

The opinion supports a move for companies and scheme managers to provide more climate-related financial disclosures. The materiality of climate risk is accepted and, therefore, it is absolutely reasonable to seek better disclosure.

In saying this, we do recognise that in recent months, there have been signs that carbon disclosures in New Zealand are improving. For example, between 2013 and 2018, only 13 or 14 of the NZX50 companies responded to the CDP survey. In 2019, the number increased to 17. However, in our view, company reporting on climate change is not sufficient given the urgency of the situation.

The Guardians is a supporter of the Climate Action 100+ Initiative and the Transition Pathway Initiative, both of which request that companies in carbon intense industries or those that have a significant role to play in the transition to a low emissions economy report against the TCFD Framework. In addition, the Guardians became a formal supporter of the TCFD in September 2019.

We note that the TCFD Framework is in its infancy. We expect that it will take a few years of trial and error before disclosures against the Framework are fulsome enough to meet desired objectives. However, transitioning to the TCFD should not be a reason to delay reporting on emissions as this is a relatively well developed aspect of climate-related reporting.

We also recognise that there are other climate-related disclosure frameworks, but we are seeing convergence with the TCFD as evidenced by increasing uptake by companies alongside support by governments and reserve banks across the world.

In this submission, we are fusing two perspectives: one as an investor reliant on climate-related information to help us make informed investment decisions; the other as a financial entity that is also required to report under the proposal.

Our main feedback is grouped into the following areas.

Feedback areas	New Zealand Super Fund comments
Do we agree there is a problem with a lack of climate related information in the NZ market?	We agree that currently there is not enough information in the public domain about how companies in New Zealand are identifying, managing, governing and reporting on material business risks and opportunities related to climate change.
Should the default reporting framework be the TCFD Framework?	We are supportive of the TCFD being the default disclosure framework. However, we note that the TCFD Framework is in its infancy. We expect that it will take a few years of trial and error before disclosures against the Framework are fulsome enough to meet desired objectives. But, transitioning to the TCFD should not be a reason to delay reporting on emissions data given the urgency of the situation and the Net Zero Carbon Legislation. We see the four main pillars of the TCFD Framework: Governance, Strategy, Risk and Metrics, as providing a robust starting point from a disclosure perspective. We do recognise that there are some parts of the TCFD Framework that are challenging to implement, for example, scenario testing. We would encourage the Government or Climate Change Commission to think about whether all elements of the TCFD Framework are relevant for all companies to report against and see this as an area for further investigation. We recognise that there are other climate-related disclosure frameworks, but we are seeing convergence with the TCFD as evidenced by increasing uptake by companies alongside support by governments and reserve banks across the world.
Legal opinions	We agree with the Chapman Tripp legal opinion commissioned by the Aotearoa Circle. It is consistent with the findings of a body of similar opinions in other markets globally but set in the New Zealand legal context.

C1 - Public

Should disclosure be made mandatory?	We support mandatory reporting on climate change. We recognise that, to date, companies have not been reporting enough information on the material business risks and opportunities related to climate change that they may be facing. Investors, via the CDP, have been asking for this type of information since 2000. Voluntary frameworks have not succeeded in bringing the relevant information to the market. We also accept there is an urgency to act and mandatory reporting will drive an immediate stocktake on where companies are at in terms of the planning for the future.
Comply and explain approach	We are supportive of the comply and explain approach proposed – that companies should do a TCFD assessment before deciding that they do not need to report against the TCFD framework. An external review of the robustness of the 'explain' reasons should be undertaken annually, in the first instance.
Who should report / exemptions	As currently proposed, listed issuers, banks, general insurers, asset managers and asset owners are required to report against the TCFD Framework. We are of the view that the scope should be widened to include all companies, regardless of whether they are listed. We do think there should be a size exemption and defer to the Financial Reporting Act which defines company sizing. The financial sector provides capital and insurance to private companies making disclosure of material risks important in the private market. Climate change is a systemic, pervasive issue that requires the proper pricing of risk across business sectors and good communication to stakeholders, including consumers. Not requiring private companies to disclose, adds to the concern that reporting requirements disincentivise listing. We are cognisant of the challenge for small fund managers in meeting the requirements of the TCFD Framework, especially when there is reliance/outsourcing to large global investment managers via managed funds. This should not be an excuse for inaction. However, the particular challenges around this model of investment should be considered. We also note that, from a practical perspective, company disclosure on climate change is a precursor for key elements of climate-related investment analysis. Investors will face limitations in reporting to the TCFD until there is a better level of quality company disclosure. A McGuinness Institute Discussion Paper titled "The Climate Reporting Emergency: A New Zealand case study", suggests that for companies that may be exempt from reporting, a voluntary regime to disclose should

	be offered. We are supportive of this suggestion and the stated rationale which is "Providing all entities with the opportunity to report against a shared standard would enable comparability of annual reports across a range of entities or for one entity over time. It would also ensure that entities that are covered by the requirements do not gain branding and reputational advantages over those that are not covered (e.g. SMEs)."
A standalone report in the Annual Report	We are supportive of material climate change related information being included in Annual Reports and would support inclusion of a summary of the findings from companies who have implemented the TCFD Framework. Climate change information may come up in a number of different areas in the annual report, including, for example, the strategy description, management commentary and financial statements. Any climate change related information that is included in the financial statements would need to be assured. There are also parts of a TCFD report that may not change significantly from year-to-year. Therefore, we are of the view that, by law, a standalone TCFD report should not need to be in the annual report. However, we would expect a flow of climate change information to enter annual reports as a result of the implementation of the TCFD Framework. A map that cross references where to find climate-related information would be useful.
Assurance	Given the costs of assurance, it should be a matter of the company's discretion whether a full TCFD report is assured. We do support assurance of Scope 1 and 2 emissions for companies as the methodology for doing so is relatively mature. As mentioned above, any climate change related information that is quantified financially *and* included in the financial statements would need to be assured and included in the scope of an ordinary audit – it should not be a separate assurance engagement. Auditor guidance will be needed. We are of the view that the industry needs a few years of practice – report preparers, report assurers and report users, all need time to implement the framework, refine policies and processes and evolve over time. An approach could be to assure some parts of a TCFD report, such as the metrics stated. Or anything that is defined as material or that is included in the financial statements.
Timing for transition	The timing proposed in the discussion document is potentially challenging for those companies that have not reported previously. A 24 month phase in following enactment of legislation may be more appropriate. We do caution that there are elements in the TCFD framework for which methodology is not well developed.

	Quantifying climate impacts in financial statements with the degree of rigour required by accounting standards and auditors is the aspiration but in its early evolution. We would encourage the Government or Climate Change Commission to think about whether all elements of the TCFD Framework are relevant for all companies to report against and see this as an area for further investigation. We also reiterate the point made above that, from a practical perspective, company disclosure on climate change is a precursor for key elements of climate-related investment analysis. Investors will face limitations in reporting to the TCFD until there is a better level of quality company disclosure.
Government regulation versus a Financial Reporting Standard	We note that if climate change-related disclosures are going to be part of financial statements, then a strong link with accounting standards should be established.
Role of government	The government will need to provide training and guidance for report preparers. The broader role of government should be to provide the policy drivers for companies to see climate change as a material business issue to manage. In addition, educational materials, case studies or reporting registers can provide guidance. Making available national climate change risk data and national emissions data, and data at a regional or local level should a focus of the government for companies to use in scenarios and risk analysis, to assess their own performance and to assist sector and cross-sector efforts to address climate change.
Compliance costs	We note that there are potentially significant costs involved via labour, 3rd party consultants or research providers, time, research and assurance costs. In particular, small enterprises could find a strict reporting regime challenging. Reporting on policy and strategy, once established, is a relatively easy starting point.

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