**To**
27 September 2022
External Reporting Board
Climate-related Disclosures Project Steering Group
Level 7, 50 Manners Street
Wellington

**From**
Climate-related Financial Disclosures sub-committee
Lawyers for Climate Action New Zealand Incorporated (**LCANZI**)

**Re: Climate-related Disclosures Final Consultation**

LCANZI thanks the External Reporting Board (**XRB**) on its diligent work since the passage of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the **Act**) to produce a robust draft set of climate standards and echoes the XRB's view that, separate from any requirement to comply with regulatory obligations, climate statements can deliver important value to organisations by facilitating better decision making and better strategies.

In particular, LCANZI is delighted that the XRB agrees with our submission that climate reporting entities (**CREs**) should be required to produce climate statements that contain at least three scenarios, including a mandatory "high physical risk" scenario of 3 degrees or more of global warming by 2100. LCANZI continues to believe that a "pessimistic but plausible" scenario such as this needs to be mandatory because, without a mandatory requirement, CREs have competitive incentives to undertake only the most optimistic scenario analysis (2 degrees of warming by 2100 or lower) for the following reasons:

- Optimistic scenarios likely involve the least stress to a CRE's business and require the least changes to existing governance, risk management, strategy and metrics and targets frameworks and therefore is likely to be the most attractive scenario to disclose. This approach would be inconsistent with the purpose of the Recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD**), whose primary concern when developing its Recommendations was that businesses were having insufficient regard to climate risks and their impact on financial stability.
- Optimistic scenarios likely involve the least uncertainty in the quantitative analysis of long-term risks and opportunities and therefore is a technically easier scenario for CREs to engage with.
- Against this backdrop, CREs that may otherwise have intended to engage with a longer term, high physical risk, "pessimistic but plausible" scenario are incentivised not to because that scenario may receive disproportionate negative attention and create a first mover disadvantage both in terms of the response to the scenario and based on the time and resources that will be required to engage in this scenario compared to lower physical risk, shorter time horizon scenarios.

LCANZI notes that a "3 degrees or higher" scenario is not an unlikely or unduly pessimistic scenario – indeed, the Intergovernmental Panel on Climate Change (**IPCC**) confirmed in its Sixth Assessment Report that, based on global policies currently in force, the planet is currently on track to reach a devastating 3.2 degrees of warming by 2100. Finally, we agree that the inclusion of more than two scenarios is generally considered best practice methodology to avoid introducing a dichotomous "good scenario" / "bad scenario" bias into the analysis.

LCANZI is also pleased to learn than the XRB has elected to:

- retain the requirements for CREs to disclose a transition plan (which should include adaptation planning as well) and gross scope 1, 2 and 3 greenhouse gas emissions; and
- add additional guidance on the requirement, in the interests of fair representation, to disclose how an entity's contribution to climate change (through its creation, consumption or facilitation of greenhouse gas emissions) can affect its enterprise value.

We query whether the definition of "transition plan" in particular, the "aspect of an entity's overall strategy that **describes an entity's targets** and actions for its transition towards a low-emissions, climate-resilient future" imposes a mandatory obligation for a transition plan to contain a publicly stated target. While the definition of transition plan and the guidance document do refer to targets and what primary users are likely to **expect** from a transition plan, the guidance document also emphasises that a transition plan should not necessarily be seen as solely an emissions reduction plan. Overall, we do not think the documents are explicit regarding whether the creation of an emissions reduction target is mandatory for a transition plan to comply with NZ CS 1. We think it would be helpful if the final climate standards addressed this explicitly.

LCANZI intends to continue engaging with the XRB and other agencies going forward relating to the following:

- approaches to creating common scenarios and centralised repositories of data and analysis to enable CREs to efficiently provide comparable climate statements;
- whether insurance underwriters are using the information contained in climate statements (given they are not considered primary users) and if not, whether that industry continues to have insufficient regard to the impact of climate-related risks to financial stability by not using the information contained in climate statements;
- how climate disclosures (whether in the form of these climate statements or other disclosures) can be tailored to be used by a wider group of stakeholders than only investors and creditors (for example customers, employees and suppliers) in non-financial decision-making; and
- the appropriate time to introduce the concept of double materiality in New Zealand's climate standards to align with global best practice.

LCANZI may also monitor the content of climate statements released under these standards to ensure that these documents are useful, relevant and challenging, which is a cornerstone of the TCFD Recommendations – with a view to raising additional matters with the XRB if compliant climate statements do not appear to:

- enable decision-makers to ensure that the effects of climate change are routinely considered in business, investment, lending, and insurance underwriting decisions;
- help reporting entities better demonstrate responsibility and foresight in their consideration of climate issues; and c. to lead to smarter, more efficient allocation of capital; and
- help smooth the transition to a more sustainable, low-emissions economy.

**SIGNED** for and on behalf of the **Climate-related Financial Disclosures sub-committee** of **LAWYERS FOR CLIMATE ACTION NEW ZEALAND INCORPRATED** by )

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Signature

Michelle Tustin

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