



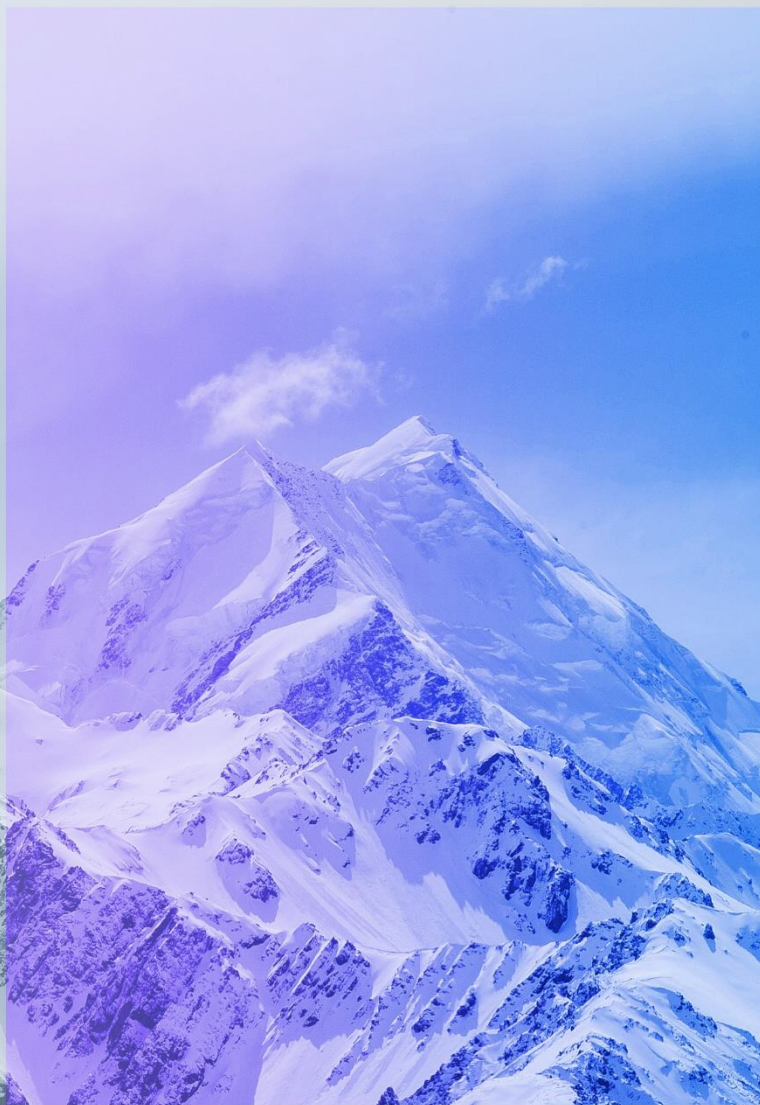
# Get ready for climate-related disclosures



Understanding the proposals

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August 2022



# Get ready for climate-related disclosures in New Zealand



## What's the issue?

- New proposals on climate-related disclosures (the proposals) mark the first step towards equal prominence for non-financial and financial reporting.
- They are based on existing frameworks and standards, including TCFD and ISSB proposals.
- Their aim is to create a baseline for investor-focused climate reporting in New Zealand.



## What's the impact?

- Entities would report on climate-related risks and opportunities that impact enterprise value.
- Reporting would be connected to the financial statements. Therefore, companies will need processes and controls in place so that they can provide climate-related information of the same quality, and at the same time, as their financial information.



## What's next?

- The proposals are open for comment until 26 September 2022; the subsequent standards are expected to be issued by the end of 2022.
- Some public and private companies may choose to adopt them voluntarily – e.g. in response to investor or societal pressure.

### Documents released



### Abbreviations and Key terms



# 10 questions

## to start getting ready

01

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02

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# 01 What has been released?

## ► The general requirements proposal sets the foundation

- General principles of reporting, including on materiality.
- Topics such as:
  - Reporting entity
  - Value chain
  - Restatement of comparatives
  - Methodologies, assumptions, and estimation uncertainty.

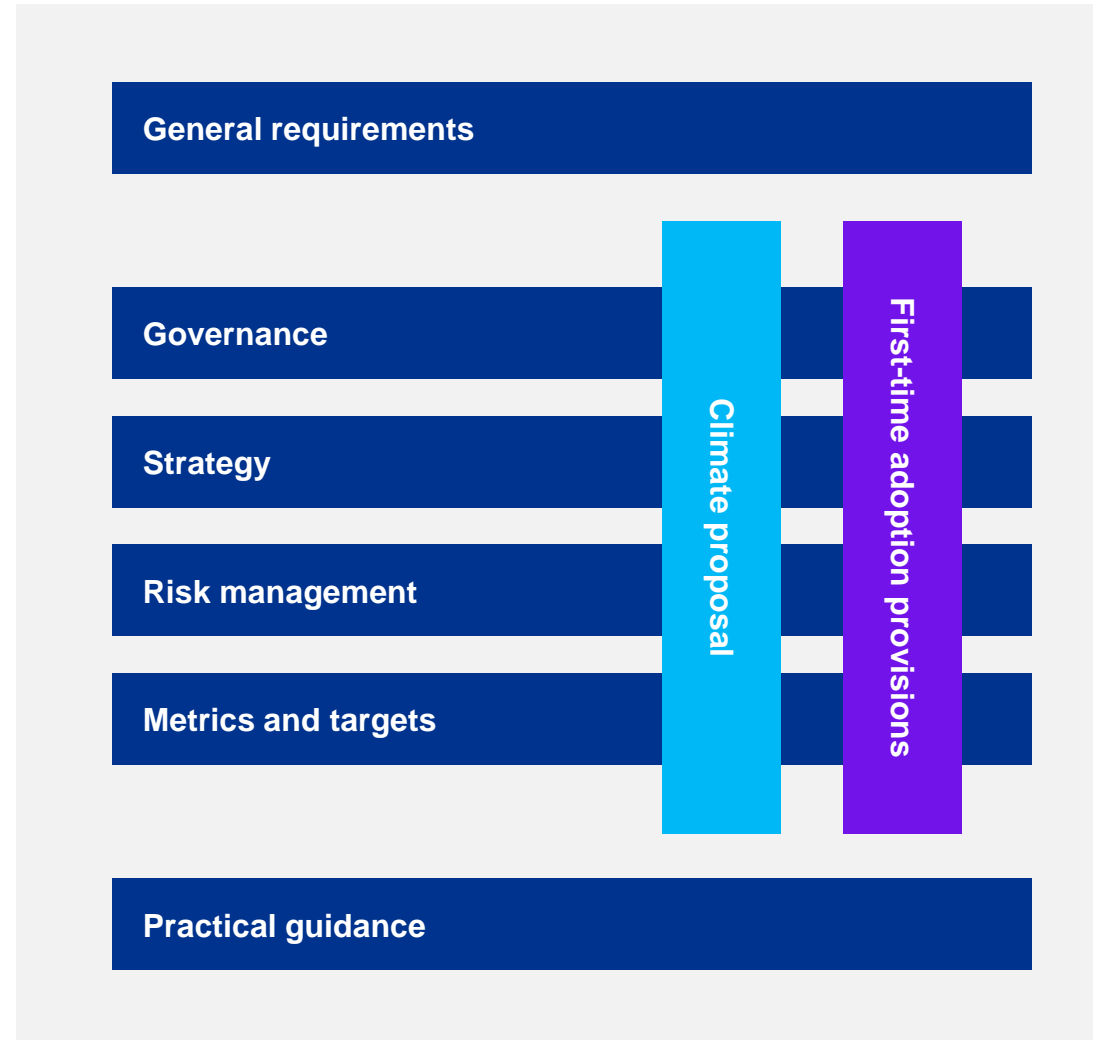
## ► The climate proposal, first-time adoption and practical guidance proposals provide additional detail

It builds on four content areas with additional guidance and first-time adoption exemptions, particularly in relation to:

- Disclosure of greenhouse gas emissions, climate transition plans, scenario analysis and financial impacts.
- General and industry-specific metrics.

## ► Future proposals are expected to follow

- Additional non-mandatory proposals are expected in the future, providing industry-specific guidance and covering other topics – e.g. biodiversity.





## 02

## What would need to be disclosed?



Exemptions provided on first-time adoption



## Governance

**Support evaluations of whether climate-related issues receive appropriate governance body and management attention**

**To achieve the objective:**

- Describe the “identity” of the governance body responsible for oversight.
- Describe the oversight of climate-related risks and opportunities by the governance body.
- Describe management’s role in assessing and managing climate-related risks and opportunities.



## Strategy

**Inform expectations about the current and future performance of an entity**

**To achieve the objective:**

- Describe the current and anticipated climate-related impacts.
- Describe the climate-related risks and opportunities identified over the short, medium, and long term.
- Describe scenario analysis undertaken.
- Describe how the entity will position itself as the global and domestic economy transitions to a low-emissions, climate-resilient future state.



## Risk management

**Support evaluations of the entity’s overall risk profile and the quality and robustness of the entity’s risk management activities**

**To achieve the objective:**

- Describe the processes for identifying, assessing and managing climate-related risks.
- Describe how these processes are integrated into the entity’s overall risk management.



## Metrics and targets

**Support evaluations of how the entity measures and manages risks and opportunities – basis for comparison to other entities**

**To achieve the objective:**

- Describe the metrics (cross-industry, industry-based and other key performance indicators) used to measure and manage climate-related risks and opportunities. Disclosures about greenhouse gas (GHG) emissions are included here.
- Describe targets used to manage climate-related risks and opportunities and performance against targets.

Requires limited assurance over specified disclosures.

## 03

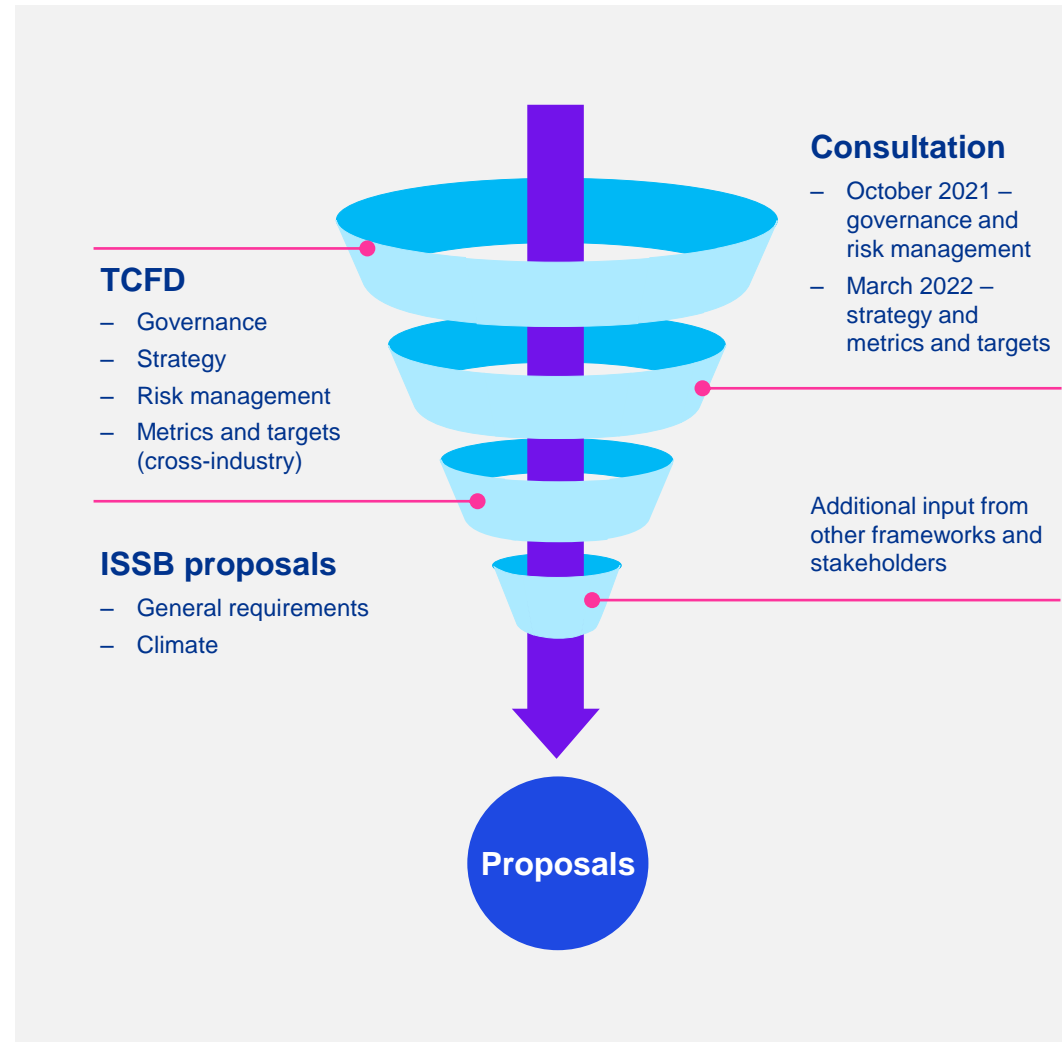
# What are the proposals based on?

## ► Consolidate the latest thinking of existing frameworks and standards

- Follow the four pillars of the TCFD's recommended disclosures: governance, strategy, risk management, metrics and targets.
- Enhanced by proposals issued by the ISSB and feedback received from first two consultations.
- Additional input from other frameworks and stakeholders.

## ► New Zealand specific design principles

- Guided by the qualitative characteristics of information that are useful for decision making.
- Understanding of te ao Māori in relation to climate-related disclosures is being developed at a framework level and will inform the standard-setting process over time.



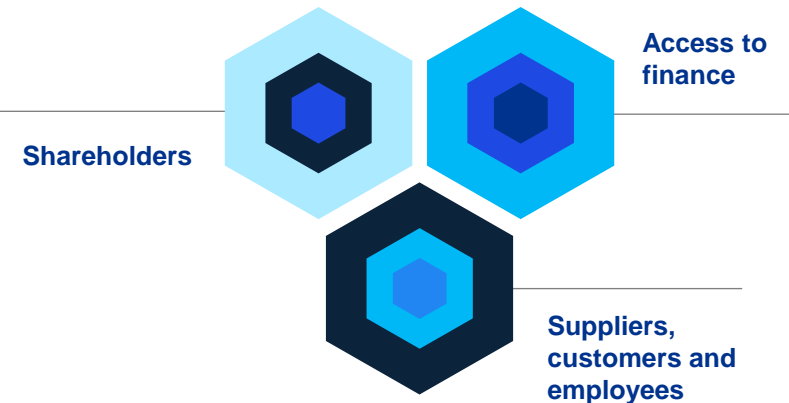
# 04 How and when could they affect you?

## ► Regulation and similar

- The legislative framework for mandatory climate reporting was put in place in October 2021.
- In-scope entities are expected to prepare climate statements for financial reporting periods commencing on, or after, 1 January 2023.
- For Crown Financial Institutions the requirements are included via Letter of Expectation with reporting due for entities by 30 June 2023.
- Many other Government entities are required (via a directive issued on 22 March 2022) to publish emissions-related information as part of their 30 June 2023 annual report.

## ► Pressure from investors and others

- Regardless of regulatory requirements, the business community is increasingly vocal and active on the topic of climate change.
- Investors are increasingly willing to use their voting power to drive transparency over ESG matters, including transition plans and their impact.
- Supplier and customer contracts (especially with the Government) may require climate-related information to be provided in order to facilitate their own disclosures or even enable them to do business with your entity.



## 05

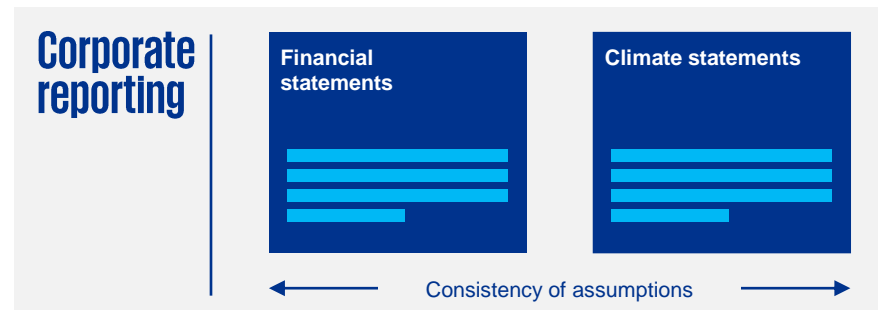
# Would they require scenario analysis?

## ► What is scenario analysis?

- A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty.
- Scenario analysis is used to answer 'what if' questions. It does not aim to forecast or predict what will happen.
- Helps to identify risks and opportunities and to build a better understanding of the resilience of the entity's business model and strategy.

## ► What is a climate-related scenario?

- A set of assumptions around how the world may react to achieving different degrees of global warming.
  - For example, the carbon prices and other factors needed to limit global warming to 1.5°C.
- By their nature, scenarios may be different from the assumptions underlying the financial statements. However, assumptions that underpin climate scenarios should be consistent with those used in the underlining financial reporting estimates and judgements.



## ► Is scenario analysis required?

Yes

## ► What must be disclosed?

How an entity has analysed (at a minimum) 3 climate-related scenarios:

- 1.5°C
- 3°C or greater
- One other.



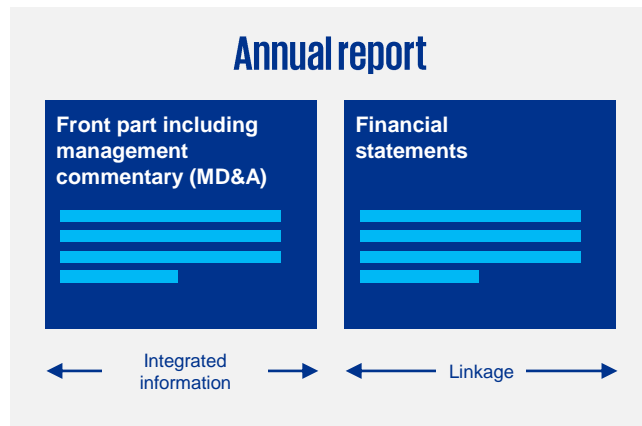
## 06

# Where would the information be disclosed?

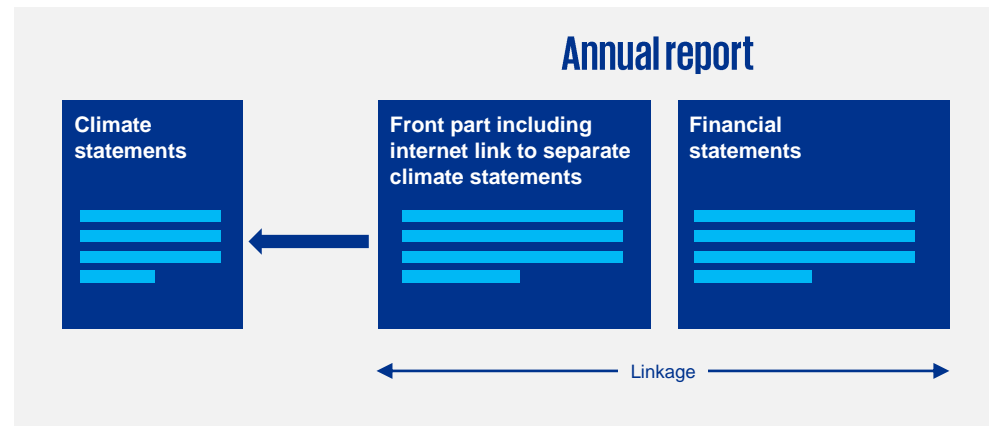
## ► It depends

- The Act requires that a copy of the climate statements or a link to the Internet site where the statements can be accessed be included in the annual report.
- The proposals include further guidance on the location of the disclosures, including a requirement to include a table with cross-references when the disclosures are integrated in another document.
- Regulations or guidance issued by the various regulators may also require material ESG-related information. Care should be taken to ensure consistency and linkage between the various disclosures.

### Example 1: Integration of information in annual report



### Example 2: Separate climate statements



## 07

# What about topics other than climate?

## ► Legislative framework

- The Act provides for a mandatory climate disclosures framework only in respect of climate-related risks and opportunities.
- The Act allows for non-binding guidance in respect of ESG and other non-financial reporting to be issued by the XRB.
- The XRB has commenced work on developing an ESG framework.

## ► Other considerations

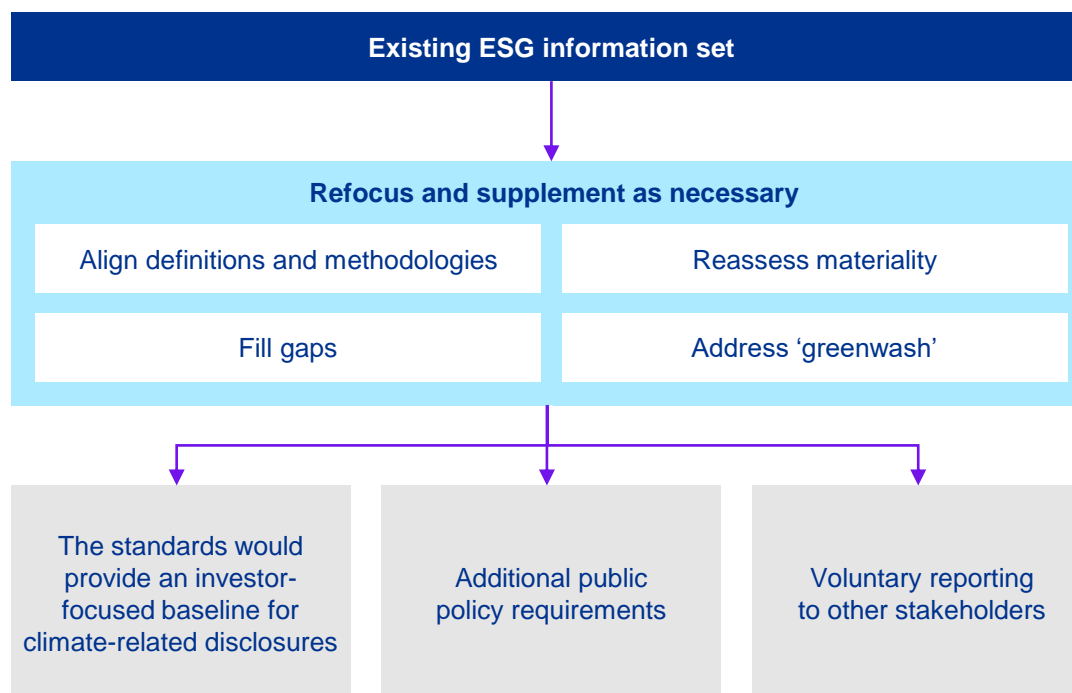
- Financial reporting standards already require ESG-related matters to be considered in preparing financial statements.
- A 2019 legal opinion confirmed that Directors must assess and manage climate risk as they would any other financial risk. Similar considerations may apply in respect of legislation expected on other ESG-related matters (e.g. Modern Slavery).



# 08 What if you've already adopted other frameworks?

## ► Build and adapt

- Map how the proposals differ from current frameworks used.
- Focus on matters that affect the entity's prospects and consider what would impact an investor's assessment of those prospects.
- Consider where additional data is needed.



## ► Items to consider if previously adopted TCFD

- Identify and present material information on topics other than climate and focus on sector and industry metrics.
- For climate-related reporting specifically, prepare for more granular disclosures, and align the bases of calculation and presentation to the climate standards proposal.

# 09 What about assurance?

## ► Required

- Under the Act, the greenhouse gas emissions disclosures are required to be assured for periods ending on or after 27 October 2024, i.e. in the second climate statements to be prepared.
- The proposals require that this assurance engagement is a limited assurance engagement at a minimum.

## ► Voluntary

- Some entities are coming under pressure from investors, lenders, customers and others to improve their ESG credentials and related reporting, including for the information to be subject to assurance.
- The Act allows for the assurance engagement to cover other parts of the climate statements or the climate statements as a whole.
- Consistent with developments globally, we envisage that over time the level of assurance being obtained will increase from limited to reasonable assurance.

## Level of Assurance

### Limited

- Negative assurance
- Lower level of assurance

*“Based on the evidence we obtained from the procedures performed, we are not aware of...”*

### Reasonable

- Positive assurance
- Higher level of assurance

*“In our opinion, in all material respects...”*

No assurance  
(Not meaningful)

Absolute assurance  
(unobtainable)



# 10 What do you need to do now?

## Be prepared

### The four things you should be doing now:



#### Educate your organisation

on climate-related risks and opportunities and what they mean for the entity.



#### Establish a board-led governance structure

that brings both finance and climate reporting to the boardroom table when making commitments, decisions and reporting on climate-related issues.



#### Engage with current process owners

and understand how information is being defined, captured and reported, and where there are control gaps.



#### Expand your systems, processes and controls

to create efficiencies and move certain aspects of the data collection and calculation process into existing or new systems and processes.



# Documents released

[Link to documents](#) ▶

Document	Contents
<b>Consultation document</b>	The key context in which the proposals were developed and consultation questions for the climate-related disclosure framework and guidance
<b>Exposure draft of NZ CS 1: Climate-related Disclosures</b>	The disclosure requirements relating to the four thematic sections (Governance, Risk Management, Strategy, and Metrics and Targets) and the assurance requirements
<b>Exposure draft of NZ CS 2: First-time Adoption of Aotearoa New Zealand Climate Standards</b>	The adoption provisions available to climate reporting entities the first time that they are required to disclose
<b>Exposure draft of NZ CS 3: General Requirements for Climate-related Disclosures</b>	General requirements and principles for preparers to follow when making disclosures under Aotearoa New Zealand Climate Standards
<b>Draft guidance for all sectors</b>	Draft staff guidance relating to draft NZ CS 1 that is applicable for all types of climate reporting entities
<b>Draft guidance for MIS managers</b>	Draft staff guidance relating to draft NZ CS 1 and draft NZ CS 3, specific for managers of registered managed investment schemes (MIS managers)
<b>Comparison tables</b>	<p>Comparison between draft NZ CS 1 and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and guidance</p> <p>Comparison between draft NZ CS 1 and the International Sustainability Standards Board draft climate standard (IFRS S2 Climate-related Disclosures)</p>



# Abbreviations and key terms

## Act

Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021



## CRD

Climate-related disclosures



## Enterprise value

Enterprise value focuses on the factors that drive companies' short-, medium- and long-term prospects, and the information the capital markets need to assess them



## ESG

Environmental, Social and Governance



## ISSB

International Sustainability Standards Board



## TCFD

Task Force on Climate-related Financial Disclosures



## WEF

World Economic Forum and in particular the Stakeholder Capitalism Metrics



## XRB

External Reporting Board





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