



Climate reporting: We have lift off



It is official. On 1 January 2023, mandatory climate reporting became a reality for around 200 entities in Aotearoa New Zealand with the vast majority of entities being in the financial services sector. As mentioned in many articles on this topic over the last year, this is just the start. However, it is a significant milestone in the trajectory to mainstreaming Environmental, Social and Governance (ESG) reporting and bringing non-financial reporting on par with financial reporting.

The overall requirements are not new. Many New Zealand financial institutions already consider international frameworks in their existing ESG reporting. Some may have already provided some disclosures under the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in the past, either as part of their own external reporting or feeding into the disclosures of their parents based overseas. However, as the cliché goes, the ‘devil is in the detail’, and the Aotearoa New Zealand Climate Standards include more detailed requirements than the TCFD recommendations.

Also, in the past, entities could choose their own path and pace in implementing these types of disclosures. However, the outcome of this approach is not all that heartening. After five years, only 4% of the almost 4,000 entities globally that committed to reporting in accordance with the TCFD recommendations are providing disclosures in respect of all of the 11 recommendations. The majority of these entities provide information on less than five of the 11 recommendations.

In respect of banks, we have been tracking the information provided by banks globally about climate-related risks and opportunities, including how they have adopted the TCFD recommendations over the last two years¹. This included 35 major banks across UK and Europe, Australia, Canada, Asia and the US. 97% of these banks disclosed that they followed the TCFD recommended reporting for their climate-related disclosures.

Our overall observations include:

- Progress on climate-related disclosures in annual reports slowed down in 2021, despite increasing consensus on the need for enhanced climate impact transparency.
- There are significant differences identified between countries where there is heightened regulation on climate-related disclosures and where that is not (yet) the case.
- 86% of banks disclosed that they obtained an assurance report on certain climate-related financial information. The majority of assurance reporting is limited in nature and primarily relates to scope 1 and 2 emissions, and the total of green or sustainable financing granted to date.

“ The Aotearoa New Zealand Climate Standards include more detailed requirements than the TCFD recommendations. ”

- Currently a lack of quantitative disclosures makes it hard to understand the full picture on climate-related impacts.
- Scenario analysis and financed emissions are areas where significant progress is yet to be seen.

It is worth noting that the general theme across our global benchmarking exercise is how we see banks continue to develop and mature their climate-related disclosures over time, particularly as more guidance is made available and understanding develops from the performing of scenario analysis and calculating the true extent of greenhouse gas (GHG) emissions.



Across the four thematic areas we noted that:

1. Governance – Disclosures are relatively advanced in maturity

Banks have enhanced their governance and risk management frameworks, but we are yet to see the full impacts of these changes on their strategies, metrics and targets.

2. Strategy – More work is required on these disclosures

Many banks have committed to achieving net zero carbon emissions by 2050. However, their transition plans on how they intend to achieve this over the short, medium and long term are not yet clear. There are limited quantitative disclosures of scenario analysis so it is challenging to use the information currently disclosed by banks to assess the resilience of their strategies.

3. Risk management – Disclosures are relatively advanced in maturity

Unsurprisingly, disclosures within risk management are more advanced due to the banks’ traditional focus in this area. Banks have started integrating climate-related risks into their credit risk processes. However, there is less clarity on how they are considering the impacts on other risks such as market and liquidity risks.

4. Metrics and targets – More work is required on these disclosures

Metrics are not yet disclosed at a granular level which makes it challenging for users to understand and assess how banks have progressed in achieving their targets. Banks are also yet to calculate and disclose their financed emissions across their full lending and investment activities.

How do these observations extend to the New Zealand context?

Our survey of sustainability reporting published in November 2022² found that:

60% of financial institutions recognise climate change as a risk, down from 67% in 2020

67% of financial institutions report on carbon reduction targets, down from 78% in 2020

“ Three organisations reported on the potential impacts of climate-related risks through scenario modelling, and this has only been done at a parent level where their headquarters are overseas. ”

These findings are concerning given that New Zealand entities are on a different trajectory to their global counterparts. They will be required to provide disclosures in respect of all 14 of the key disclosures in their first climate statements, i.e. within one year. Yes, there are some first-time adoption exemptions, but remember, these relate only to providing disclosures. In our experience, the work and data gathering will have to be done this year regardless of whether an entity takes an exemption because of the interrelatedness of the disclosures. For example, to provide disclosures in your first climate statements about relevant risks and opportunities, some degree of financial modelling is necessary. So, you will have to ensure that you get your head around the financial impacts before you publish your first climate statements even though the disclosures about financial impacts may be included in the second climate statements only.

See [Figure 1 - page 5](#) - for a summary of the key disclosures

For New Zealand financial institutions users of the reports will not so much be interested in ‘whether’ or ‘which’ disclosures requirements have been applied. They will be assessing entities on the quality and informativeness of the disclosures made and how these improve over time as practice matures.

With the big shifts we are facing, the time has most definitely come for New Zealand financial institutions to start to take bigger steps forward. Our team is here to help you take those tangible steps that will accelerate positive impact in New Zealand.

End notes

1. See our website for more detailed analysis and other information: [Banking survey on climate-related disclosures – KPMG Global](#)
2. Opportunity is passing us by – [KPMG New Zealand](#)

Figure 1
KEY DISCLOSURES



Governance

Support evaluations of whether climate-related risks and opportunities receive appropriate attention from the governance body and management

- 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 entity's actions to achieve a better strategic position and build resilience given current and anticipated climate-related impacts

- Describe the current and anticipated climate-related impacts.
- Describe scenario analysis undertaken, including the climate-related scenarios used.
- Describe the climate-related risks and opportunities identified over the short, medium and long term.
- 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

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



Metrics and targets

Support evaluations of the entity's progress in managing or adaptation to climate-related risks and opportunities

- Describe the metrics that are relevant to all entities regardless of industry and business model (eight metrics included in the Standard).
- Describe the industry-based metrics relevant to industry and business model used to measure and manage climate-related risks and opportunities.
- Describe any other key performance indicators used to measure and manage climate-related risks and opportunities.
- Describe targets used to manage climate-related risks and opportunities, and performance against those targets.



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