Sustainability Scanning 2024: A Complex Horizon for Financial Services

The sustainability landscape and, with it, stakeholder expectations are evolving rapidly.

Regulation, legislation and best practice are all shifting to reflect the urgency of the climate crisis as well as wider ESG issues such as nature degradation and human rights.

To help organisations navigate the rising tide of complex expectations in 2024, KPMG has outlined the key changes and requirements coming up in this space and what they mean for New Zealand's financial services sector.

Each organisation is captured by different regulations and requirements, so this document aims to provide a high-level view, rather than an exhaustive list. To understand more about what these mean for your organisation, contact our specialist team.

1. **Facilitated Emissions Standard (v1)** – Partnership for Carbon Accounting Financials (PCAF)
   v1 published December 2023
2. **Year 2 disclosures – New Zealand Climate Standards** – External Reporting Board (XRB)
   Published with Year 2 requirements commencing through 2024
3. **Transition planning guidance** – XRB & Transition Plan Taskforce (UK)
   TBC 2024
4. **Climate Stress Testing of 5 major banks** – Reserve Bank of New Zealand (RBNZ)
   April 2024
5. **Green taxonomy for Aotearoa New Zealand design recommendations** – Centre for Sustainable Finance & Independent Technical Advisory Group
   June 2024
6. **Natural Hazards Insurance Act** – New Zealand Treasury
   July 2024
7. **Australian Climate-related Disclosure Standards** – Australian Accounting Standards Board
   January 2025 (pending legislation)
8. **Taskforce on Nature-related Financial Disclosures** – TNFD
   Throughout 2024
9. **Pillar 3 Climate-related Disclosures** – The Basel Committee on Banking Supervision
   Proposal in H2 2024
10. **Climate Change Adaptation Bill** – Ministry for the Environment
    TBC
11. **New Zealand Modern Slavery Bill** – Ministry of Business, Innovation and Employment
    TBC

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	What?	Category	So what?	What next?
1	**Facilitated Emissions Standard (v1):** PCAF published the first-ever Global GHG Accounting and Reporting Standard for Capital Markets at the end of 2023. The Standard covers the primary issuance of capital markets instruments and loan syndication. It provides methodology for financial institutions to consistently measure and disclose emissions associated with capital market business lines. This type of reporting has been excluded by many to date, as it is optional in most standards.	Guidance	Other PCAF methodology is already used internationally and in New Zealand. A common accounting approach for facilitated emissions will increase the expectation and level of disclosure – enabling financial institutions to make informed decisions related to climate and emissions. As stakeholder expectations and standards are raised, financial institutions need to increase their reporting efforts. There is a heavy reliance on the data quality and this has Board level attention due to potential greenwashing risks.	Entities need to ensure that they can understand and measure facilitated emissions to prepare for increased reporting requirements and investor focus. Facilitated emissions have been gaining attention in financial services for years, and this focus on capital markets will sharpen investors' focus. Getting started on transforming in-house data capabilities and internal architecture to support the measurement, management, reporting and governance of financed emissions is needed now, to avoid being left behind.
2	**Year 2 disclosures - New Zealand Climate Standards:** Year 2 disclosures require a significant step up in reporting as first time adoption exemptions will expire for many entities in 2024. Find out more about the Standards here.	Regulation	Year 2 of reporting includes new requirements as entities will be required to disclose the current and anticipated financial impacts of climate risks and opportunities, and the transition planning aspects of strategy and alignment with internal capital deployment and funding decisions.	Entities need to understand what is different in Year 2 and look to improve the disclosure process after their first report. Engaging early will allow entities to prepare for the increased Year 2 requirements and reap the benefits of taking a strategic, rather than compliance, mindset.
3	**Transition planning guidance:** Best practice guidance for transition planning from the international Transition Planning Taskforce has been published, with New Zealand-specific draft guidance from the XRB expected in the near future. The TPT has developed sector-specific guidance for Asset Managers, Asset Owners, Banks and Insurance, but best practice is still emerging and rapidly evolving.	Guidance	Entities will have to disclose more detail on their transition planning efforts in Year 2 of Climate-related Disclosures, covering strategy and alignment with internal capital deployment and funding decisions.	Starting now will help translate work on climate-related disclosures into a strategic plan to be well-positioned for the low-carbon economy, and look to improve the disclosure process for Year 2. International banks have already begun publishing transition plans and so the expectations of users of financial statements are rising.
4	**Climate stress testing of 5 major banks:** The results of the Climate Stress Test run by the RBNZ in 2023 will be published, designed to improve the banks' capability in managing climate-related risks. The published report will offer an indication of New Zealand's financial stability in a particular climate scenario.	Guidance	The report will surface potential risks and opportunities for the financial services sector to prepare for and explore the resilience of the five largest banks.	Banks and financial institutions need to understand the implications of the report, including how this stress testing differs from scenario analysis, and pay attention to areas for improvement or exposure.
5	**Green taxonomy for Aotearoa New Zealand design recommendations:** Toitū Tahua has convened an interim specialist Independent Technical Advisory Group (ITAG) to prepare and publish independent non-binding advice to the Minister for Climate Change on the design of a green / sustainable finance taxonomy rulebook that is fit for purpose for Aotearoa New Zealand.	Consultation	A green taxonomy for New Zealand would aim to bring consistency to how we define what is 'sustainable'. A standardised approach could help enhance access to sustainable finance and increase credibility in the market, so financial institutions may have an interest in offering feedback on how the taxonomy is designed.	The draft recommendations will look at scoping areas such as priority sectors for a taxonomy and will be shared for external feedback in April. Financial institutions, particularly banks and asset managers, may want to share their views on what is proposed ahead of its submission to the Minister in June.
6	**Natural Hazards Insurance Act:** This Act is replacing the Earthquake Commission Act 1993 for new claims for natural hazards damage to residential properties that happens on or after 1 July 2024. The objectives are to enable better community recovery from natural hazards; clarify the cover provided by the Act; and enhance durability of future legislation.	Legislation	Insurers and holders of security over physical assets should be aware of the broadened cover (beyond earthquakes) to residential properties and changes in language. A major change is the requirement that claims be settled in a timely and fair manner, including a code for claimants' rights.	Banks and insurers need to understand the changes in legislation, what it means for their customer's credit risk security and their claims management. The broadening scope reflects New Zealand's increasing exposure to natural hazards and encourages financial services providers to consider how they should support impacted or at-risk communities in the future.

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7	**Australian Climate-related Disclosure Standards:** The Australian Sustainability Reporting Standards: Disclosure of Climate-related Financial Information will require climate-related disclosures from large organisations in Australia. The final standards are expected in 2024, pending legislative amendments.	Regulation	Many New Zealand financial institutions will be captured by this regime and will be required to report. Australia's proposed standards contain key differences compared with New Zealand's, so Trans-Tasman organisations will need to consider how this integrates and aligns with New Zealand's existing requirements.	For organisations captured by both climate disclosure regimes, finding efficiencies and alignment in reporting processes to address the differences will be key. Setting up processes now that can work across both jurisdictions will save time and resource down the line.
8	**Taskforce on Nature-related Financial Disclosures:** The TNFD is a global initiative set up to encourage businesses and finance entities to assess, report, and act on their nature-related dependencies, impacts, risks, and opportunities. By integrating nature into decision-making processes, the TNFD aims to facilitate a shift in global financial flows towards nature-positive outcomes, aligned with the Global Biodiversity Framework.	Guidance	Nature is a significant business risk, inextricably connected with climate, particularly in New Zealand. Global disclosure frameworks, investors and other stakeholders are increasingly focused on nature. 320 organisations from over 46 countries have committed to start making nature-related disclosures based on the TNFD Recommendations in 2024.	The potential for mandatory nature reporting is increasing, with elements already included in the EU's CSRD, beginning in 2024. The ISSB has published its own sustainability disclosure standards, focused on climate but expected to broaden. Proactivity in understanding your organisation's relationship with nature will help manage risks and avoid playing catch-up later.
9	**Pillar 3 climate-related disclosures:** A comprehensive set of public disclosure requirements to create a common disclosure baseline for internationally active banks. This will provide market participants with sufficient information to assess an internationally active bank's material risks and capital adequacy and a common baseline to compare against.	Guidance	The Committee is considering the qualitative and quantitative "Pillar 3" disclosure requirements, including which elements would be mandatory and which subject to national discretion. These requirements could inform international standards that need to be complied with.	The Committee will publish a revised or final proposal in the second half of 2024. Banks will want to understand how this aligns with or differs from the New Zealand CRD regime. Alignment with international standards enables better comparability in the market on managing climate risks.
10	**Climate Change Adaptation Bill:** The previous Government committed to developing adaptation legislation, with a focus on retreat and funding and financing. In 2023, an "issues and options" paper was released for consultation.	Proposed Legislation	The Bill is expected to include detail on how adaptation and managed retreat will be funded, how risk assessments should be undertaken and shared, and where responsibilities will lie. There will be significant implications for banks and insurers on their role, particularly on property values and managed retreat.	The Inquiry by Select Committee began at the end of 2023, and the current Government is still expected to progress to legislation. Banks and insurers will want to pay close attention as well as explore opportunities to work with government and other key stakeholders for a coordinated approach for New Zealand.
11	**New Zealand Modern Slavery Bill:** In 2023 the Labour government proposed draft modern slavery legislation for New Zealand. While final legislation and timing is unclear following the change in government, the proposal for modern slavery legislation has cross-party support.	Proposed Legislation	Financial institutions will benefit from being prepared for the legislation. Avoiding scrutiny from stakeholders and managing potential risks are key motivators to start understanding and managing your supply chains. Many organisations are already reporting under Australian legislation. Recommendations have been made for Australia to move to mandatory due diligence frameworks for modern slavery, increasing public scrutiny of modern slavery risk in business operations and supply chains.	Understanding current processes to identify, assess, manage and address modern slavery risk (modern slavery maturity) is a useful place to start. Being able to identify inherent risks across business operations and supply chains will enable transparency in reporting pursuant to legislation as well as to stakeholders.

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Get in touch to find out more about how our established financial services team can support you with ESG and sustainability issues.

We can help you navigate the requirements of the year ahead, while maximising value for your organisation. Our offerings include:

- Climate-related disclosures support, including scenario analysis and financial quantification.
- Carbon accounting and emissions reporting.
- Sustainable finance support.
- Nature-related impacts and dependencies assessment and TNFD support.
- Modern slavery maturity assessment.
- Process design for disclosure interoperability.
- Transition planning support.

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