# CDP and CDSB response to the Ministry for the Environment's public consultation on climate-related financial disclosures

CDP and the Climate Disclosure Standards Board (CDSB) welcome the opportunity to offer our written responses to the questions laid out in the Ministry for the Environment's discussion document *Climate-related financial disclosures - Understanding your business risks and opportunities related to climate change*, published in October 2019.

CDP is a global environmental impact non-profit working to secure a thriving economy that works for people and planet. High quality, relevant information is the fundamental basis for action and CDP helps investors, companies and cities to measure, understand and address their environmental impact. The world's economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action. CDP aims to make environmental reporting mainstream and provide the detailed insights and analysis to drive the urgent action needed for a climate safe, water secure, deforestation free world. CDP recognises the important role of the Task Force on Climate-related Financial Disclosures (TCFD) in mainstreaming climate-related information and advancing the availability of financially relevant information for global markets. Therefore, CDP has aligned its information requests with the TCFD recommendations, alongside introducing a sectoral focus and adopting a forward-looking approach to climate risk disclosure.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information (the CDSB Framework) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. The CDSB Framework is aligned with the TCFD and it is the most referenced framework in the Task Force's recommendations. CDSB also hosts the TCFD's Knowledge Hub.

Collectively, CDP and CDSB aim to contribute to more sustainable economic, social and environmental systems.

Our responses to specific questions are in Annex I below. Please do not hesitate to get in touch in case we can be of further assistance.

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## Annex I: Responses to consultation questions

### Chapter 1: Context

| 1. | Is the TCFD reporting framework the most appropriate framework for New Zealand? |
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Yes, the TCFD reporting framework is the most appropriate framework for New Zealand.

As an industry-led initiative with significant private backing, the TCFD brings existing standards, frameworks and concepts together and presents a clear set of recommendations for organisations to implement. These are aimed at all financial actors, from companies and investors to asset owners and managers, as the goal is to provide consistent and transparent information to global markets. New Zealand companies that do not issue TCFD-aligned reports risk marginalization within these global markets.

Financial regulators will also be in a more informed position to understand the potential exposure within the economy from future climate-related risks, such as stranded carbon assets, and work with policymakers to ensure the risks are managed and mitigated appropriately. The New Zealand government should support efforts from actors in the financial sector to understand how to evaluate their exposure to climate-related risks and maximise the opportunities related to the transition to a low-carbon economy. To that end, the TCFD framework is uniquely positioned to empower stakeholders to monitor and then draw down emissions throughout New Zealand.

The TCFD recommendations, when implemented economy-wide, will help to ensure there is a smooth transition to a low-carbon economy. It does this by stating that the effects of climate change upon organisations should be evaluated and disclosed within mainstream reports, as with any other material business risk. Its effectiveness should be evidenced through reducing potential financial instability preventing a 'carbon bubble' within the markets, transforming business models and strategies that currently have large exposures in carbon intensive sectors and increasing the efficiency of capital allocation to organisations with long-term sustainable returns on investment.

CDP recognises the important role of the TCFD in mainstreaming climate-related information and advancing the availability of financially relevant information for global markets. Therefore, CDP has aligned its information requests with the TCFD recommendations, alongside introducing a sectoral focus and adopting a forward-looking approach to climate risk disclosure.

The CDSB Framework provides guidance to report preparers on the integration of climate-related financial information into corporate annual reports. It is the most referenced reporting framework in the TCFD recommendations report and it has also been aligned further with the Task Force's recommendations.

The CDP questionnaire provides a method to structure and collect information in line with the recommendations and the CDSB Framework helps report preparers with the integration of this information into mainstream reports. Together they form a toolkit for companies for TCFD implementation.

We commend New Zealand on taking swift action to adopt the recommendations of the TCFD. The cost of not acting now has been well articulated in the consultation document and it is clear that in the long term, this is the right decision for the New Zealand economy and for New Zealanders alike.

The consultation document also highlights correctly that moving to mandatory TCFD reporting requirements would position New Zealand as a leader internationally, but an inability to move swiftly would leave it at a competitive disadvantage against their peers, considering the pertinent physical risks of climate change in the country.

| **2.** | Do you agree with the conclusions we have drawn at the end of chapter 1? |
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While we strongly agree with every other conclusion, we do not agree that climate change is not material to every company of scale, as outlined in 48.3. As highlighted by ASIC's Regulatory Guide 247 *Effective disclosure in an operating and financial review*[1], climate change is a systemic risk. As such, it has wide ranging implications, affecting all businesses, but this is not widely understood by the market. While climate risks may not seem to be present for even the largest companies in certain sectors and different risks are material to different types of businesses, companies are dependent on their employees and many different products and services – all of which may be impacted by climate change and therefore pose material risk to their future ability to create value. We do agree however that testing this proposition is a practicable way to assess and understand such risks.

**Chapter 2: Objective and problem definition**

| **3.** | Do you agree with the objective as set out above? |
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We agree with the objective as set out. We believe that disclosing information on climate-related risks and opportunities should become a required practice in New Zealand and in other jurisdictions internationally. Reporting through the TCFD framework is the best vehicle to produce the "clear, comparable, consistent, timely, and understandable information" that both the government and the investment community recognize as necessary to accelerate the transition to a low-carbon economy, attract further international investment and contribute to safeguarding New Zealand's economy from macroprudential risks posed by climate change.

| **4.** | Should other objectives also be considered? |
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We have no comments on this matter.

| **5.** | Do you agree with the problem definition? Are there other aspects we should consider? |
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We agree with the findings of the McGuinness Institute and the Productivity Commission, and with the overall framing of the problem.

CDSB has held TCFD implementation workshops in Auckland and Wellington this spring, kindly hosted by Simpson Grierson and the McGuinness institute, attended in total by over 200 representatives of a wide range of market actors in New Zealand. While there was support for the TCFD and interest in its implementation in both of these workshops, it was clear that some companies are not yet at the same level of advancement regarding climate change reporting as their

[1] Australian Securities and Investments Commission (2019) Regulatory Guide 247 *Effective disclosure in an operating and financial review*. [PDF]. Available at: https://download.asic.gov.au/media/5230063/rg247-published-12-august-2019.pdf

peers in other countries. Our review of this supports the statement made in the Problem definition that "The status quo is not delivering information at the required pace."

It is clear that more than voluntary intervention is needed to bring businesses in New Zealand in line with international practice and therefore support their transition to low-carbon, sustainable business models.

CDP works with some 525 investor signatories with over 96 trillion USD in assets and 125 large purchasing organizations responsible for 3.6 trillion USD in procurement to generate the environmental data that the market needs to make investment decisions in line with the goals of the Paris Agreement. We do this through the means of our TCFD-aligned climate change questionnaires. This level of engagement with CDP, both by companies and by investors, reflects the growing call for TCFD-aligned reporting.

New Zealand companies like Fonterra, Kiwi Property, and Meridian Energy currently disclose through our TCFD-aligned questionnaire and see the benefits of providing stakeholders with decision-useful information. We agree that mandatory reporting under the TCFD framework would sufficiently change the status quo so as to accelerate the pace of information delivery and to eliminate the perceived challenges to reporting.

Additionally, mandatory reporting would further solidify New Zealand's leadership in environmental stewardship.

**Chapter 3: Climate-related reporting obligations in New Zealand**

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| **6.** | What are the implications of section 211 of the Companies Act 1993 for the disclosure of material climate-related information in annual reports? |

Section 211 of the Companies Act of 1993 provides helpful regulatory infrastructure around reporting, but it does not go far enough, as it does not explicitly require reporting on the impact of climate change on the company. It provides little guidance on how the board is to assess the materiality of climate-related risks. This leaves a reporting gap which the proposed requirements could fulfil.

While Section 211(1)(a) could be interpreted in a way as to allow for TCFD-aligned disclosures, it is:

a) Clearly not interpreted as such, thus requiring further clarification from Government;
b) Reads as a requirement for backward-looking disclosures, thus not incorporating the forward-looking nature of the TCFD; and
c) Is not specific enough to clarify expectations for reporting companies, nor to elicit standardised and thus comparable disclosures.

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| **7.** | What are the implications of the NZX Listing Rules for the disclosure of material climate-related information by (a) equity issuers, and (b) debt issuers? |

While we appreciate the value of the NZX Listing Rules for both equity issuers and debt issuers as it provides a foundation for requirements, the past few years since the issuance of the ESG guidance have resulted in significant evolution in corporate reporting. The guidance in its current form is more suitable for corporate social responsibility reporting, rather than, for example, climate-related financial reporting to an investor audience. While the TCFD recommendations are referenced in the ESG Guidance Note, the commentary focuses heavily on the Metrics & Targets element and not the other elements of the Task Force's recommendations.

The NZX Corporate Governance Code has commendable and relevant elements for better disclosure on climate change (notably Recommendation 4.3 and 6.1, as referenced in the legal opinion commissioned by The Aotearoa Circle), however it too falls short of the specifics needed to give businesses the certainty around what is expected of them, as well as the clarity to elicit consistent and comparable information.

The rules are sufficiently ambiguous to allow companies to comply with the letter of the rules without producing decision-useful data for investors.

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| **8.** | How should proposed adaptation reporting under the Climate Change Response (Zero Carbon) Amendment Bill and the climate-related financial reporting disclosures proposed in this discussion document best work together? |

Reporting under the Zero Carbon Bill by definition will have a slightly different objective, due to the audience of such reporting, however both public and private entities have an impact on the financial stability of a country. As such, the discussion about coordinating between the two requirements seems a pragmatic way forward, allowing for example the Reserve Bank of New Zealand to aggregate risks and undertake macroprudential assessments about the future of the country's economy.

Following the UK's example, Adaptation Reporting Powers could also be used to ask the Financial Markets Authority about its supervision of climate-related financial disclosures to ensure that it is actively and sufficiently supervising such disclosures.

**Chapter 4: Directors' legal obligations and climate change**

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| **9.** | Do directors' legal obligations in New Zealand result in consideration, identification, management and disclosure of climate-related risks? |

While we have no specific comments on this matter, we have found the evidence in this section of the Discussion document convincing.

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| **10.** | Do you agree with the legal opinion prepared for the Aotearoa Circle? |

Yes, especially regarding the statement made in paragraph 7.4:

*"7.4 Where the company has public disclosure obligations, directors also need to ensure they are disclosing material financial risk due to climate change as they would disclose other material business risks."*[2]

[2] Chapman Tripp (2019) Sustainable Finance Forum Legal Opinion 2019. [PDF]. Available online at: https://static1.squarespace.com/static/5bb6cb19c2ff61422a0d7b17/t/5db95b00780a6c1bc1af5743/1572428552373/SFF_Climate+Change+Risk+Legal+Opinion_301019.pdf

While we fully agree with the argument that current reporting requirements should warrant and result in climate-related financial disclosures (especially on material climate-related risks) being commonplace by New Zealand companies, it is clear that this is not the case. As such, it is necessary for further regulatory intervention to take place in order to safeguard the economy and society.

**Chapter 5: Designing a comply-or-explain disclosure system for New Zealand**

**A: The status quo versus new mandatory reporting requirements**

| **11.** | Do you favour the status quo or new mandatory disclosure requirements? |
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We favour the new mandatory disclosure requirements. The paucity and inconsistent quality of reporting under the status quo highlight the need to institute mandatory disclosure requirements. Mandatory reporting requirements – particularly requirements aligned with the TCFD framework – would support addressing the information gap left by the status quo.

All of the factors pushing disclosure under the status quo – The Companies Act 1993, NXZ Main Market/Debt Market Listing Rules; the spectre of litigation against company directors and trustees; and mounting pressure from various stakeholders – are useful but have proven to be insufficient in practice to accelerate reporting to the pace and scale required to inform decisions to support the transition to a low-carbon economy.

Moreover, there is a significant opportunity to consolidate these various requirements in the form of comply-or-explain requirements, and that these factors will continue to push companies to produce high-quality, material information once mandatory reporting has come into effect.

| **12.** | If a mandatory approach is adopted, do you agree with the Productivity Commission that a mandatory (comply-or-explain) principles-based disclosure system should be adopted? |
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We believe that a principles-based disclosure system would be sufficiently robust to address the reporting deficiency, while minimizing the costs and other burdens associated with rules-based reporting. A principles-based system allows companies sufficient flexibility while still providing markets and stakeholders with climate-related information.

Given the reasons outlined in Chapter 5 Section C, we do believe that a comply-or-explain approach would be appropriate, apart from the initial implementation phase outlined in the Discussion Paper.

| **13.** | If the status quo is retained, how can government and investors be confident that risks would be routinely considered in business and investment decisions? |
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We believe this is not possible under the status quo and would unnecessarily expose New Zealand to significant and systemic risks from climate change.

**B: Disclosures that would satisfy a 'comply' requirement**

| **14.** | Do you consider the TCFD framework to be best practice in relation to climate-related financial disclosures? |
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Yes. This is evidenced by the widespread adoption of TCFD and the success of the framework among corporations, regulators, and other stakeholders worldwide.

| **15.** | What are your views about whether the TCFD's recommended disclosures will provide useful information to institutional investors and other users? |
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Rather than providing our own views, we would like to note that almost all major institutional investors have publicly stated their support for the TCFD recommendations, which can be found on TCFD Supporters list[3].

A few notable quotes from institutional investors:

*"Companies must improve reporting on their management of carbon risks and opportunities for their shareholders and banks to make more informed decisions. We are doing our part by being an earlier adopter of the FSB Taskforce recommendations, joining this initiative and thus signalling we will be seeking greater disclosure from our customers about their climate related risks and opportunities."*

*– Shayne Elliott, Chief Executive Officer, Australia and New Zealand Banking Group Limited (ANZ)*

*"…A key component of sustainable investing is climate-related disclosure, which can enhance the investment process. Disclosure of material climate-related information by public issuers is one of our investment stewardship team's key priorities for engagement. We support the TCFD's efforts to improve climate-related financial disclosure by public issuers, and Brian has recently joined the TCFD task force on behalf of BlackRock. We recently sent out a letter to more than 100 companies regarding their engagement on TCFD."*

*– Philipp Hildebrand, Vice Chairman, BlackRock*

*"These recommendations are very welcome. The impact of climate change and the transition to a lower-carbon economy deserve board-level scrutiny and governance. Independent research commissioned by HSBC shows that less than a quarter of companies currently disclose their environmental impact. This makes it very difficult for analysts and investors to assess and compare how sustainable these companies are. These [TCFD] recommendations are a practical and pragmatic response to the need for consistent and comparable climate-related financial disclosure."*

*– Stuart Gulliver, Chief Executive Officer, HSBC*

Data from TCFD-aligned reporting, in the shape of CDP responses, already fuels the global ESG marketplace. Data from CDP climate responses appears on platforms and indices like Bloomberg Terminals, DJSI, MSCI, Stoxx, and Google Finance, among others, where the data is relied on by many of the world's largest and most influential investors and institutional shareholders.

[3] TCFD (2019) TCFD Supporters. [Online]. Available at: https://www.fsb-tcfd.org/tcfd-supporters/

An analysis of the responses of the 2,376 companies that disclosed to CDP in 2018 in response to the climate change information request sent by CDP on behalf of their investors shows that a large number of companies are disclosing TCFD-aligned information. Almost three quarters of companies in total are already disclosing information in response to either all or almost all of the TCFD-aligned recommendations within the CDP questionnaire.[4]

| 16. | Do you think the proposed disclosure system will encourage disclosing entities to make better business decisions? |
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Yes. We find that companies responding to CDP's TCFD-aligned climate change questionnaire tend to show improved environmental performance over time. The act of preparing and filing a TCFD-aligned report sparks internal conversation; guides business strategy; and produces greater buy-in for environmental management among internal stakeholders.

Through CDP's disclosure platform, we have also seen a strong correlation between disclosure and companies setting emissions reduction targets. Four times as many companies have set a science-based emissions reduction target within the group of companies that respond to all TCFD-aligned questions within the CDP questionnaire, than within the group of companies that don't.[5]

Through conversations with companies working on implementing the TCFD recommendations, CDSB has found that as part of implementations, companies often strengthen their governance processes and their risk management processes.

| 17. | Is the definition of materiality in the IASB Conceptual Framework for Financial Reporting appropriate for this purpose? |
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Yes. Materiality should be determined using the same approach for determining any other material information to be disclosed in annual financial filings. As noted in the TCFD Recommendations Report: "In determining whether information is material, the Task Force believes organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings. In addition, the Task Force cautions organizations against prematurely concluding that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks."

However, it must be noted that current application of the IASB's materiality definition has not yielded any significant reporting of climate-related financial information. Guidance, such as the AASB/AUASB Practice Statement noted in the Discussion Paper, as well as CDSB's Position Paper on Materiality and climate-related financial disclosures[6] can provide a reference point for further

[4] 'Accelerating corporate climate action: the role of policy', CDP, p.13. Available at https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/004/709/original/Accelerating_corporate_climate_action.pdf?1575983736

[5] 'Accelerating corporate climate action: the role of policy', CDP, p.14. Available at https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/004/709/original/Accelerating_corporate_climate_action.pdf?1575983736

[6] Climate Disclosure Standards Board (2017) Position paper Materiality and climate-related financial disclosures. [PDF]. Available from: https://www.cdsb.net/sites/default/files/materiality_and_tcfd_paper.pdf.

authoritative guidance to report preparers on interpreting the IASB's definition of materiality more appropriately in practice.

The XRB and/or FMA are however perfectly positioned to provide more guidance to companies on ensuring proper application of the IASB's principle of materiality.

**C. When it would be acceptable to explain**

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| **18.** | What comments do you have on our proposal that non-disclosure would only be allowable on the basis of the entity's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why? |

We would not consider any other reason as acceptable for non-disclosure.

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| **19.** | What are your views about providing a transition period where incomplete disclosures would be permissible? |

A transition period would support an orderly transition to the new status quo and give companies time to adapt to these new requirements.

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| **20.** | If there is to be a transition period, what are your views on it being for one financial year? |

A period of one financial year is not without its challenges, however it is commensurate with the urgency dictated by the reality of timelines to address climate change. Given this short timeline, it is essential to ensure that ample support is provided to companies. CDSB and CDP would like to offer its continued support in this process.

In addition, as outlined by the European Systemic Risk Board[7], a late and sudden transition to a low carbon economy would be far costlier than acting sooner. Reporting is part of the infrastructure that enables this transition, while allowing market actors to actively manage associated risks.

**D. Who it would apply to**

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| **21.** | Should all of the following classes of entity be subject to mandatory (comply-or-explain) climate-related financial disclosures: listed issuers, registered banks, licensed insurers, asset owners and asset managers? |

Yes – a broad scope of companies subject to the reporting requirements can provide a more comprehensive picture of climate risks across the entire market and investment chain.

Asset owners and asset managers in particular can play an outsized role in the transition to a low-carbon economy. In addition to producing its general TCFD-aligned questionnaire, CDP has had success producing sector-specific questionnaires that cover a range of entities subject to the reporting requirements. Our questionnaires ensure that the resulting CDP response is

[7] European Systemic Risk Board (2016) Too late, too sudden: Transition to a low-carbon economy and systemic risk. [PDF]. Available from: https://www.esrb.europa.eu/pub/pdf/asc/Reports_ASC_6_1602.pdf

comprehensive, detailed, and relevant within the context of the reporting entity's sector, all within the TCFD framework.

| **22.** | Should any other classes of entity be required to disclose? |
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We have no comments on this matter.

**E. Whether there should be an exemption for smaller entities**

| **23.** | Should there be an exemption for smaller entities? |
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It is important to note that materiality of climate risk is not related to the size of entity and in some cases, smaller entities may have more material climate risks than larger ones. However, smaller entities often have less capacity to prepare detailed reports.

As such, some form of proportionality should be considered for smaller entities, taking into account the materiality of climate change impacts on their business, but a complete exemption would not be the best approach as it could hide material climate risk within the New Zealand economy.

| **24.** | If there were to be an exemption:<br>(a) What criterion or criteria should be used: annual revenue, total assets, a combination of the two, or some other measure or measures?<br>(b) Which dollar amount or amounts would be appropriate?<br>(b) Should there be a requirement to adjust for inflation from time-to-time? |
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Based on the comments in our response to question 23 above, it is important to not only consider financial figures, but also the activities of a business in order to ascertain whether climate change is in fact immaterial to the company under consideration.

**F. Where the disclosures would be made**

| **25.** | What are your views about our proposal to have a stand-alone climate-related financial disclosure report within the entity's annual report? |
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While a standalone climate-related financial disclosure report can be a starting point, this may result in what is effectively a separate report that is not actually connected to the rest of the information in the annual report. Climate-related financial information should be interspersed and positioned in the relevant sections of the mainstream report in such a way as to explain the links between the organisation's strategy and environmental performance.

| **26.** | What are your views about providing for disclosing entities to include cross-references or mappings within that report to assist users to find relevant information? |
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While cross-references can be helpful at the beginning of the disclosure journey, its value is minimal to investors who look for decision-useful information on risks, governance, metrics, strategy, etc, rather than how a specific standard was applied. Any additional content, such as a mapping table, adds additional length to already lengthy report, obscuring its readability. As such, a requirement for providing such cross-references, would not improve the decision-usefulness of the reported information.

It is important however that companies provide in their statement of conformance the climate-related standards they used for reporting alongside the other standards used for the annual report.

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| **27.** | What are your views about requiring explanations for non-compliance to be included in the annual report? |

We support this proposal. An explanation of why a company did not comply can provide material information to its current and potential investors.

**G. Independent assurance**

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| **28.** | Should there be mandatory assurance in relation to climate-related financial disclosures? |

While we do not have a view on whether assurance should be a mandatory requirement, if assurance has been provided, this should also be included or cross-referenced in the statement of conformance.

CDP's current approach to independent verification of emissions data is laid out on our website: [https://www.cdp.net/en/guidance/verification](https://www.cdp.net/en/guidance/verification)

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| **29.** | Which classes of information should be subject to assurance if it were to be mandatory? |

We do not have any comments on this matter, beyond what our response to question 28 above.

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| **30.** | Do you consider that assurance should be required in relation to GHG emissions disclosures? |

We do not have any comments on this matter, beyond what our response to question 28 above.

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| **31.** | Is limited assurance the only practicable approach in relation to TCFD disclosures, or is reasonable assurance also feasible? |

We do not have any comments on this matter, beyond what our response to question 28 above.

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| **32.** | If we do not introduce mandatory assurance when a disclosure system comes into effect, should it be reconsidered in the future? |

In any eventuality, it is pragmatic to assess the success of the resulting requirements and adjust as needed and would encourage Government to do so regardless.

**H. Commencement and transition**

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| **33.** | What comments do you have on the proposal to bring the disclosure system into effect for financial years commencing six months on or after the date that the regulation is introduced? |

We support this timeline. Sufficient resources exist for all affected companies to prepare a compliant report within the six-month timeframe. The TCFD Knowledge Hub (tcfdhub.org), operated by CDSB, provides an easy to use way for companies to find the resources they need to understand and implement the TCFD recommendations. CDP offers a comprehensive set of free, publicly accessible guidance materials that companies can use to prepare their reports and a questionnaire that is aligned with the TCFD recommendations. The CDSB Framework is also aligned with the TCFD recommendations and as the most referenced framework within the TCFD recommendations, it helps integrate climate-related information, such as that collected through the CDP questionnaire, into the corporate annual report.

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| **34.** | Do you consider that smaller entities should be provided with a longer transition if there were to be no exemption for them? If so, how long should that additional period be? |

We do not have any comments on this matter.

**I. The legislative means for implementing reporting**

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| **35.** | Do you have any views about the legislative means for implementing new mandatory (comply-or-explain) disclosure requirements? |

We agree that it would be most pragmatic for Government to issue these requirements. In addition to having full control over the process, Government could also ensure coherence between these new reporting requirements and other corporate reporting obligations within the Companies Act 1993.

We also see a potential role for the XRB to provide more guidance to support mandatory reporting in line with the TCFD, especially on the use of financial reporting standards for reporting climate-related financial information and on materiality determination process for climate-related matters in line with the IASB's definition of materiality, thus addressing the concerns raised in our response in question 17.

**J. The role of the government**

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| **36.** | Do you consider that there is a role for government in relation to guidance, education, monitoring and reporting? |

Given the justified, but short, timeline for implementation, Government should play an active role in ensuring that reporting entities understand what is expected of them and that they have access to training to support them in gaining the necessary skills for implementation.

Monitoring is especially important not only to ensure that requirements are binding in practice, but also to ensure that reporting entities receive authoritative and constructive feedback from

Government. While the involvement of subject matter experts from MfE, MBIE and others will be helpful, it is ultimately essential to ensure that FMA has the mandate, skills and resources to effectively monitor and supervise reporting under these new requirements.

New Zealand has a growing ESG community where Government will find eager partners in all aspects of the roll out and implementation of the new regulations and Government could also partner with global entities like CDP and CDSB to provide a full range of guidance, education, monitoring, and reporting programming and we would welcome the opportunity to support New Zealand on any of these matters.

| **37.** | Are there other activities that a government agency could usefully carry out? |
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Government could provide clarity on appropriate scenarios to use in New Zealand that are aligned with international scenarios to ensure consistency and comparability.

Government could also provide platforms to develop sector-level alignment in reporting approaches, methodologies and metrics, to enhance comparability of the reported information, as well as opportunities for New Zealand businesses to exchange experiences internationally, to contribute to a globally aligned approach to TCFD implementation. CDSB and CDP would also be able to support Government on these activities.

| **38.** | Which government agency or agencies will be best able to carry out these functions? |
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Several crown research institutes are already working on climate change and would be well positioned to carry out these functions. In particular, Landcare Research and its subsidiary, Toitū Envirocare (a CDP partner), have experience in emissions monitoring and reporting and could play a role in implementing the new rules.

| **39.** | What would you need to assist you with a full set of TCFD disclosures? |
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This question is not applicable to CDP and CDSB.

**K. Costs relating to climate-related financial disclosures**

| **40.** | What information do you have about the cost implications relating to these proposals? |
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Our experience is that the additional costs incurred through TCFD reporting are more than recuperated through the benefits of risk management, seizing opportunities, and staying ahead of market changes. We also anticipate that any initial increase in costs associated with reporting would soon decline as TCFD-aligned reporting becomes standard practice. Adopting a single, mandatory framework would also lower companies' overall reporting burden, potentially leading to cost savings.

The costs of inaction vastly outweigh the costs implications relating to mandatory reporting requirements.

| 41. | What information do you have about costs for specific types of reporting entities? |
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We would refer Government to the regulatory impact assessments made by the UK with regards to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, as well as the European Commission, when implementing the Non-Financial Reporting Directive. In our experience both when providing feedback to the above assessments, as well as when talking to reporting companies, exact costs vary significantly and are difficult to quantify.

**General Question**

| 42. | Do you have any other comments? |
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CDP and CDSB commend Government in its actions to safeguard New Zealand's economy and society through the proposed requirements outlined in this discussion paper. We strongly support mandatory implementation of the TCFD recommendations in New Zealand and other jurisdictions globally and would like to express our offer of support to both companies and Government in the implementation process.