Advisory Note

In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was passed and received Royal Assent. As a result, the External Reporting Board (XRB) has a mandate to issue climate standards as part of a climate-related disclosures framework, and guidance on non-financial matters.

Once the XRB issues its first climate standard, climate-related disclosures are mandatory for large, listed companies with a market capitalisation of more than $60 million; large-licensed insurers, registered banks, credit unions, building societies and managers of investment schemes with more than $1 billion in assets; and some Crown financial institutions (via letters of expectation). The XRB aims to issue its first climate standard in December 2022, meaning these entities would be required to make disclosures alongside wider year end reporting in 2023 at the earliest.

The climate-related disclosures legislation gives the XRB a mandate to develop a climate-related disclosures framework, which includes three Standards.

NZ CS 1 is the main disclosure standard and is based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). NZ CS 2 is an adoption standard to enable entities to begin their climate-related disclosure journey. NZ CS 3 is an authoritative notice containing key concepts, like materiality.

The TCFD was created in 2015 by the Financial Stability Board to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

The TCFD recommendations incorporate four key themes: Governance, Strategy, Risk Management, and Metrics and Targets. (Source: XRB)

Strategy pillar covers among others: identification of climate-related risks and opportunities (including the potential impact of climate-related issues on financial performance) and scenario analysis (XRB Scenario Analysis). Risk Management relates to processes for identifying, assessing and managing climate-related risks. Metrics and Targets refer mainly to measuring greenhouse gas (GHG) emissions (including Scope 1, 2 and 3).

In accordance with XRB Guidance on NZ CS 1: A reporting entity should take a relatively high-level approach in their first year of scenario analysis, touching on a broad range of different aspects of physical and transition risk and opportunity. This will provide an overview of the climate-related risk and opportunity landscape.

Climate-related risks and opportunities should be described in terms of their:

• anticipated timeframe of occurrence (i.e., short, medium, and long terms, with an explanation of what these timeframes mean for the entity and how they have been defined)

• type (Physical or Transition).

Physical risks and opportunities are those resulting from climate change itself, including via temperature, rainfall, storms, extreme events, and sea level rise. Example: Rising sea level and increasing incidence of fluvial flooding (river flooding) striking urban centres and densely populated suburbs. “Therefore, owners may see a fall in property values in flood zones as we gain an improved understanding of the risks and this is priced into the housing market.” (RBNZ Financial Stability Report 11/2022 - Residential mortgage exposure to flooding risks)

Transition risks and opportunities are those resulting from the economic, regulatory, social, technological, and legal responses to climate change. (Source: XRB Guidance). Example: "Reducing energy loss and using passive design elements such as effective house orientation, glazing and insulation can make homes warmer, healthier and cheaper to run." (BRANZ Energy Efficiency)

The improved energy efficiency of building stock can deliver not only reduction of energy-related greenhouse gas emissions but also lower operating costs, meeting environmentally responsible reporting criteria (Procurement.govt.nz) and more sustainable impact (Building Performance - Building Code update 2022).

Information on building's energy performance rating tools and certificates, also rating database are available on the New Zealand Green Building Council (NZGBC) and the National Australian Built Environment Rating System (NABERS) websites.

In the process of property analysis, it should be noted that property exposure to flood risk may relate to economic losses. The impact of flooding can vary significantly between areas given differences in meteorological factors and physical characteristics such as contour and geology.

Physical risks can be identified and analysed through a property inspection and publicly available data, which could include but are not limited to:

a) Local and regional authorities' online maps: e.g., Auckland Council maps: GeoMaps including Environment and Climate Impact and ESRI Coastal Instability and Erosion Map
b) New Zealand sea-level rise map: Maps — NZ SeaRise Programme
c) Science database and services: e.g., NIWA | Climate, Freshwater & Marine Science
d) Strategic plans: e.g., National Adaptation Plan National Adaptation Plan - Homes, Buildings and Places | Ministry for the Environment
e) Property Institute of New Zealand (PINZ) resources: Environmental, Social, and Governance Hub .

Furthermore, a Land Information Memorandum (LIM) report issued by the local council in accordance with Section 44A of the Local Government Official Information and Meetings Act 1987 provides a summary of property information, including buildings and land. LIM also identifies special feature or characteristic of the land concerned, including but not limited to potential erosion, avulsion, falling debris, subsidence, slippage, alluvion, or inundation, or likely presence of hazardous contaminants, that is known to the territorial authority.

Valuers and property consultants observe and reflect market conditions (including law and regulations) when carrying out their undertakings. Therefore, valuers and property consultants are advised to collect and record appropriate and sufficient environmental data as sustainability, energy efficiency and green features should be reflected in value(s) reported where there is observable market evidence.

Case studies and publications listed below are guides and examples of sustainable reporting, also physical and transition risk analysis.

UNEPFI - Case Studies for Financial Institutions

PFI 2020 Climate-Related Disclosures

ANZ 2022 ESG Supplement ANZ 2021 Climate-Related Disclosures

Marsh McLennan 2021 ESG Report

Climate Risk Assessment Guide - the Ministry for the Environment