



***Submission to the External Reporting Board (XRB) on Aotearoa
New Zealand Climate Standard 1 Climate-related Disclosures:
Governance and Risk Management Consultation Document***

Guardians of New Zealand Superannuation

November 2021

Thank you for the opportunity to provide feedback on the proposed Governance and Risk Management sections of the new standard, *Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)*.

The Guardians of New Zealand Superannuation (Guardians) is a Crown entity that manages and invests the New Zealand Superannuation Fund (NZ Super Fund) to help pay for the increased cost of universal superannuation entitlements in the future. Further information about our investment approach is available [here](#).

As a long-term investor, we are committed to active ownership and the promotion of good governance to advance the overall health of New Zealand's capital markets. In particular, we expect Boards and executive teams to be active in considering how to account for the changing risk profiles of the companies they are responsible for, including climate-related risks and opportunities.

In our management of the NZ Super Fund we have long acknowledged the material risks that climate change presents to the returns of long-horizon investors like ourselves. We have worked to reduce the Fund's exposure to these risks, build up its resiliency, and position our portfolio to aid in the transition to a net zero emissions economy.

Our [Climate Change Investment Strategy](#) requires credible climate-related disclosures made by the companies we invest in to succeed. Investee company disclosure provides us with the information we need to ensure that the risks and opportunities stemming from climate change are factored into our investment strategies and ownership practices.

Earlier this year, the NZ Super Fund signed up to the [Paris Aligned Investment Initiative](#), a global best practice framework designed to help us achieve net zero carbon emissions by 2050. To transition a large and complex portfolio like that of the Fund's – which is projected by the New Zealand Treasury to be worth \$330 billion in 2050 – to net zero, without compromising long-term investment returns, is a challenging task. It is in large part because

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we have been collecting the type of data required by climate-related disclosures that we have gained the confidence required to make this commitment; it is only through our investee companies disclosing their climate data that we will be able to fulfil our commitments under this framework. As such, the Guardians is supportive of the development and implementation of the mandatory climate risk disclosure regime in New Zealand.

In our experience, undertaking climate-related disclosures has a number of benefits; it allows us to test our Climate Change Investment Strategy and identify improvements, it serves as a single report source setting out our approach to climate change for both internal and external audiences, and it allows us to walk the talk with the investee companies with whom we engage on ESG disclosure matters.

Overall, we readily endorse the balanced approach taken with respect to the Governance and Risk Management sections of the standard. We view the sections as strong enough to ensure that disclosures are meaningful and comparable, while also informed by contextual considerations, and warmly congratulate the XRB for their work in this regard.

Going forward, the XRB may like to consider further grounding its consultation in practical terms to allow readers to more clearly envisage how the proposed disclosures could be implemented in the context of their organisation. For example, it is not clear on our read of the consultation document whether reporters will be required to strictly follow the four section structure of governance, risk management strategy and metrics & targets.

In our experience, opting for a free-form narrative approach to climate-reporting with the required disclosures cross-referenced in an index or reconciliation table can aid in the clarity, logic and flow of the information. We acknowledge that cross-referencing here would be key to ensure consistency and comparability, bearing in mind mandatory disclosures will need to be auditable.

We further suggest that the XRB considers staggering implementation of mandatory climate-related disclosures; with transition/carbon risk reporting requirements being required earlier than physical risk reporting. Doing so would:

- Foster early action and disclosure on decarbonisation, in light of the Climate Change Commission's recommendations, the New Zealand Government's transition policy and the establishment of more robust metrics and data availability.
- Allow time for more informed climate change scenario analysis and physical risk assessment and management planning.
- Address 'disclosure hesitancy' relating to physical climate change risk exposure, based on preparers having to report on risk before having had a chance to develop robust physical risk management (adaptation/resilience) plans - especially with the Ministry for the Environment's National Climate Risk Adaptation Plan not due to be published until late-2022.
- Be more efficient and resource effective, given the expected volume of climate change transition and mitigation risk information arising from preparers due to the proliferation of TCFD reporting and evolving global agreements and government policies.

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In our view, this approach would help address the intended function of mandatory climate-related disclosures legislation and establish clear decarbonisation pathways, while improving the efficiency and accuracy of reporting based on anticipated improvements in data/information availability/quality at different stages.

The Guardians again thanks the XRB for the opportunity to provide comments on the Consultation Document.

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