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External Reporting Board  
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## **ICNZ submission on XRB's Climate-related Disclosures Governance and Risk Management Consultation Document**

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Thank you for the opportunity to submit on the Climate-related Governance and Risk Management Consultation Document.

By way of background, ICNZ's members are general insurers and reinsurers that insure about 95 percent of the Aotearoa New Zealand general insurance market, including about a trillion dollars' worth of Aotearoa New Zealand property and liabilities. ICNZ members provide insurance products ranging from those usually purchased by individuals (such as home and contents, travel and motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability, business interruption, professional indemnity, commercial property and directors and officers insurance).

ICNZ welcomes this review and would be happy to engage further if it would be of assistance. Please contact Tim Grafton ([tim@icnz.org.nz](mailto:tim@icnz.org.nz)) if you have any questions on our submission or require further information.

### **Over-arching comments**

ICNZ supports for the most part the draft Governance and Risk Management standards. They reflect an appropriate level of inquiry to be able to satisfy a regulator that actions are being taken by a reporting entity that is applying the TCFD framework. The standards are generally principles-based, so permitting some degree of flexibility which in our view is appropriate. We do note though that the draft Governance standard does have a higher level of prescription and we question whether this may require some adjustment.

We suggest that the definition of primary users of the disclosures may be too narrow because it does not consider other commercial relationships which would benefit from the disclosures. Guidance on the definition of terms would be useful and should also align as closely as possible to TCFD reporting. As one of the purposes of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (**Act**) is to lead to more

efficient allocation of capital, only disclosing risks, but not opportunities will prevent this goal being achieved

It is critical to us that the standards use definitions as closely aligned to the TCFD definitions as possible. Departure from this principle will be self-defeating, create confusion and would and would be unhelpful for primary users.

We question the reference to terminology like the “size” of the risk when a term like “material” would align more closely with the management of risk. We question why there is no reference to risk avoidance in the standard at 5 c).

Further guidance would also be useful in some areas.

There should also be guidance in relation to consolidation/groups. It needs to be clear whether a parent needs to disclose the risk management and governance for a subsidiary or joint venture. If so, then clarity is needed to avoid duplication of reporting if the subsidiary or joint venture also discloses and then how to resolve differences that may exist between the two reports.

## **Submission**

Our responses to the questions posed in the Issues Paper are set out below.

### **Q1. Primary users have been identified as existing and potential investors, lenders and insurance underwriters. Do you think that all of these users should be included in the primary user category?**

Given a purpose of climate-related disclosure is to inform investment decisions, investors would by definition be a primary user. Lenders would seem to be a category of investor as it involves providing funds with interest or a similar return. However, for clarity there is no harm in including this category specifically. It is hard to think of any good reason insurance underwriters would not be a primary users given we seek to be as informed as possible about risks. It would be disingenuous to argue to be excluded.

The question though we ought to be asking is whether there are others that should be considered as primary users. We wonder whether the commercial partner of a reporting entity or a supplier to a reporting entity ought not be considered a primary user too. It is highly likely these entities who may lie outside the financial sector may want to report their climate related exposure. An increasing number of companies outside the scope of the XRB or FMA’s mandate have an interest in or are conducting climate-related disclosures.

In addition, at least some customers ought to be considered as primary users because their preferences are influenced by how the companies, they choose to take services from are managing their climate-related risks. Changing customer preferences is regarded as one of the principal drivers of transition risk. It seems therefore that if reporting entities are to take into account these changing preferences it would be naïve to ignore customers as a primary user of climate-related disclosure.

**Q2. 2. Do you think the proposed Governance section of NZ CS 1 meets primary user needs?**

It is critical that primary users have confidence that what lies behind what is disclosed is the result of processes and oversight that reflect comprehensive consideration. Requiring board oversight and management's identification and assessment of risks and opportunities is necessary to give this confidence.

- a) Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.**

We note the draft Governance standard requests that a lot more information be disclosed about what the board does relative to management. This is not to say the information required about the board is too much or not useful, but whether the information about what information needs to be disclosed by management is sufficient.

Management is required by 5 a) to say whether it reports to the Board or a Committee of the Board and 5 b) requires an organisational structure to identify where positions/committees address climate issues. This may provide some insight as to the importance placed on climate issues, but it can only be indicative. 5 c) is the most critical to enable primary users to assess the quality of what is being reported to the board and what will be disclosed. This addresses the processes by which management is informed, makes decisions on and monitors climate-related issues. It is not clear whether this would sufficiently cover off the integration of climate issues into the entity's overall strategy nor its implementation. It is possible that the draft Strategy standard, which is yet to be issued, may address this question. And while the level of detail required of the board vis-à-vis management is clear it is less clear from the requirements asked of management how those governance requirements permeate from management through the reporting entity as well as in dealings with suppliers, commercial contractors and others.

Subject to the issues raised above about being sufficiently comprehensive, the section does seem to strike a good balance between prescription and specificity. It provides sufficient scope for reporting entities to decide how far they go in providing detail and the guidance around providing sufficient information to achieve the objective of informing primary users of relevant information and not obscuring matters by including insignificant detail is useful.

- b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?**

The draft standard overall is clear about the requirements it identifies. We note though that boards and management will look typically to other tools than processes, such as, company policies and codes, to integrate key themes and issues into corporate thinking, so there may be a question whether these might need to be referenced too.

- c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?**

Subject to the issues raised above about being sufficiently comprehensive, the section does seem to strike a good balance between prescription and specificity. It provides sufficient scope for reporting entities to decide how far they go into providing detail.

**3. Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?**

Yes. Primary users need to be able to understand that a thorough risk assessment has taken place. NZ CS 1 is clear that the methods and tools for identifying and assessing risk as well as for measuring the size and impact as well as scope (including extent of value chain) are described for the short, medium and long-term horizons. This means primary users can assess gaps in reporting or differences in approach vis-à-vis other reporting entities which is important for comparability and consistency. It also usefully adds the need to assess the relative significance of climate risks and their relative significance to other risks.

It is noteworthy though that while 5 c) seeks to describe a standard approach to risk management no reference is made to the avoidance of risk. To our mind, risks are managed by either reducing/mitigating risk by controlling it, transferring (e.g., to insurers), accepting or avoiding it altogether. We recommend this framework be added and the avoidance of risk be included.

- a) Do you think that the information provided under this section of the standard will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.**

Subject to our comments as detailed in the response above, the standard will result in useful information being provided to primary users. If this question is also asking whether there is information that should be provided that is not identified, then perhaps more could be added. One such area could be around key assumptions that have been made about future uncertainties and whether that information ought to be provided more explicitly.

- b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?**

Yes, the wording is clear and unambiguous.

- c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?**

Yes, subject to earlier comments around key assumptions that have been made. We note the reference to “size” of risk in 4 a). We would expect that with future consultation on ‘materiality’ planned early next year, that it will be important to

clarify the application and relationship between the ‘materiality’ and ‘size’ of risks. We believe material risk is more commonly used and understandable, particularly from a primary user’s perspective.

In 3 and 4, the standard should also explicitly ask for any limitations or significant omissions to ensure transparency and comparability.

**4. The XRB has primarily drawn from the TCFD’s definitions for its defined terms. Do you agree that we should align closely with the TCFD’s definitions?**

Yes, but we are surprised this question is being asked. Indeed, we strongly support close alignment with TCFD definitions and note that to do otherwise would be problematic. The Act specifically references the TCFD reporting framework, so reporting entities will expect the standards to align as closely as possible with its definitions. We also see it as important to remain consistent with what other international standards setters and jurisdictions (e.g., the ISSB) are doing in referencing TCFD and its definitions. Changing definitions from those that are widely used here and internationally would negatively impact the purpose of climate-related disclosure. It could lead to ambiguity, confusion, excessive reporting and additional costs.

**5. The XRB is particularly interested in feedback on the following defined terms as they are currently proposed: ‘climate-related risk,’ ‘climate-related opportunities,’ ‘climate related issues,’ ‘physical risk’, and ‘transition risk’.**

The definition of “climate-related risk” does not separately call-out changing customer preferences, which we would distinguish from market response, and we feel needs to be specifically identified.

The definition of “climate-related opportunities” is sufficiently broad to cover the topic. It is worth noting though as described earlier that avoidance of risk is an opportunity to reduce climate risk exposure and this is not referenced.

The definition of “climate related issues” is a very broad definition which enables all matters to be considered.

The definition of “physical risk” should include reference to “sea-level rise” given the significant risk this presents to our islands and the billions of dollars of assets at risk otherwise the definition is appropriate in its identification of both acute and chronic issues.

As noted above, the definition of “transition risk” does not call-out consumer preferences and nor does it raise the issue of liability risk though both are part of the TCFD structure to which we believe the standards must be closely aligned. It may be useful to add reference to “mitigation” and “adaptation” responses to transition risks.

**a) Do you consider that the XRB should align with the TCFD and use the terms ‘climate related opportunities’ and ‘climate-related issues,’ or should we only refer to ‘climate related risks’?**

The TCFD itself refers to climate-related opportunities when disclosing under the Strategy theme, but not with respect to Governance and Risk Management. It is important to include climate-related opportunities in disclosures. Opportunities may present as ways to mitigate or control risks, so they are integral to reporting. If reporting entities were only to talk about risk, they would be reporting a bleaker and less accurate picture of how they see the future. They would also be less able to provide a narrative around how strategy is addressing risks by taking up opportunities to enable entities to transition to a low carbon future. In this way, reporting entities are better able to provide primary users with a more complete picture of risk management and give them confidence or otherwise about an entity's management of climate-related risks. As one of the purposes of the Act is to lead to more efficient allocation of capital, only disclosing risks, but not opportunities will prevent this goal being achieved.

**b) Do you consider that the proposed definition for these terms are accurate, sufficiently clear and well-explained? Do they need further detail or explanation? If so, should that detail be included in the defined terms or in guidance?**

There will be a spectrum of sophistication of reporting entities, and it will be useful particularly for them, but possibly for all reporting entities and the Financial Markets Authority to have guidance on the defined terms. It would be appropriate to have that detail included in the guidance if the terms align with those used widely in current TCFD reporting.

**6. Do you have any other views on the defined terms as they are currently proposed?**

None except for the term "material." Here some ambiguity may arise around what a reporting entity and what a primary user considers material. Current wording allows the reporting entity to determine materiality. The threshold for materiality will differ between reporting entities. So, more guidance here would be helpful.

There is no reference to changing consumer preferences and behaviour unless they are intended to be subsumed under "market" changes. Yet it has been the voluntary and mandated changes to consumer behaviour that have had the most significant impact on the global economy during the pandemic. We believe that consumer behaviour/preference needs to be called out in the definition.

The description of physical risks focuses on primary impacts, but as insurers are aware extreme weather events also bring secondary impacts and losses. If these are part of the TCFD structure, there should be consideration to calling these out.

In the draft standard 5 c) there is reference to mitigation and control of risk, but no specific reference to avoiding risk. This should be added. Elsewhere there is reference to managing risk which may be interpreted more broadly, so there is need for consistency regarding the use of these terms.

Transition risks should clearly include reference to both mitigation and adaptation. The Zero Carbon legislation places mitigation and adaptation obligations on the Climate Change Commission and successive New Zealand governments, so it is appropriate to be consistent here.

**7. The XRB is currently of the view that adoption provisions for some of the specific disclosures in NZ CS 1 will be required. However, the XRB does not believe it is necessary to provide any adoption provisions for entities in relation to the Governance and Risk Management disclosures. Do you agree with this view? Why or why not?**

The XRB states that Adoption provisions offer various provisions to entities when a new standard or new requirements are to be applied for the first time, and can include practical expedients, phased adoption or relief from providing comparative information. It is important to note that those entities that are more advanced in their climate reporting journey may choose not to apply any of the provisions that are intended to be made possible in NZ CS 2 (Adoption Standard).

We agree that the Governance and Risk Management standards as drafted are not onerous and should not require Adoption provisions. However, we support Adoption provisions for Strategy and Metrics and Targets as entities will be new to reporting and measuring climate-related disclosures.

**8. The XRB currently intends NZ CS 1 to be concise and sector neutral, with sector-specific requirements to be contained in guidance. Do you agree with this approach?**

The XRB is being ambiguous here by using the word “currently” as that suggests it may change its views later. The XRB has also encouraged ICNZ members to look at a sectoral approach to climate scenario development and has cited the approach taken by the seafood sector as an exemplar. There is certainly a lot of merit to have a sector disclose to some shared sets of assumptions which would assist primary users with respect to comparability and consistency by a sector drawing on these. Guidance of course is not mandatory. However, it will be useful to issue sector-specific guidance such as to insurers with respect to liability risks which may be of less concern to other sectors.

**9) Do you have any other comments?**

Clarity sooner than later on sector specific or general scenarios would be helpful. We support sector specific scenarios for general insurers. Access to data for all reporting entities is a critical issue and one issue that central government needs to pick up.

We would expect Scope 3 GHG emissions to be subject to a phased in Adoption approach given some degree of complexity here.

We agree more clarity is required on how to report in annual reports given the need to integrate climate-related risks into all aspects of an organisation and what it does. However, if fully integrated, it can be difficult for primary users to identify the relevant climate-related information they seek.

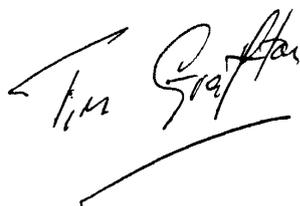
We support the XRB's proposal to develop a definition of materiality for climate-related disclosure.

Finally, there needs to be guidance in relation to consolidation/groups. For instance, it is not clear whether a parent need to disclose the risks and governance for a subsidiary or joint venture. Ambiguity here could lead to duplication of reporting if the subsidiary or joint venture also discloses.

### **Conclusion**

Thank you again for the opportunity to submit on the draft governance and risk standards. If you have any questions, please contact me on [tim@icnz.org.nz](mailto:tim@icnz.org.nz) or by phoning 027-270-9084.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Tim Grafton", with a long horizontal flourish underneath.

**Tim Grafton**  
Chief Executive