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Climate-related financial disclosures  
Ministry for the Environment  
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## **ICNZ submission on Climate-Related Financial Disclosures discussion document**

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Thank you for the opportunity to submit on the discussion document titled *Climate-related financial disclosures* ('discussion document'), which was released in October 2019 by the Ministry for the Environment.

ICNZ represents general insurers that underwrite about 95 percent of the New Zealand general insurance market, including about a trillion dollars' worth of New Zealand property and liabilities.

Please contact Andrew Saunders ([andrew@icnz.org.nz](mailto:andrew@icnz.org.nz) or 04 914 2224) if you have any questions on our submission or require further information.

This submission is in two parts:

- Overarching comments
- Responses to questions in the discussion document

### **Part 1 – Overarching comments**

ICNZ strongly endorses Task Force on Climate-related Financial Disclosures (TCFD). Better information gathering and analysis by entities for disclosure purposes facilitates better decision making and risk management, while providing reporting entities with market incentives to manage risks and take advantage of opportunities. High quality disclosures also help investors, lenders and insurers to properly assess the long-term value creation of companies and make better informed and more responsible decisions.

Corporate entities around the world including insurers and banks, state treasuries, superannuation funds and large institutional investors are already adopting the TCFD as a framework to better gather and analyse information, allocate capital more efficiently, reduce risk, and develop competitive advantage in the transition to a more sustainable, low-carbon economy.

ICNZ supports moves towards making climate-related financial disclosures mandatory for listed issuers (including any listed insurers), asset owners (i.e. institutional investors) and asset managers (i.e. investment managers) as well as banks and insurers. However, we cannot support this becoming mandatory until there is greater guidance to ensure disclosures are transparent and consistent. We

are also concerned about mandating requirements without any idea of the consequences of non-compliance, such as penalties and personal liability for directors.

In making such disclosures mandatory, the Ministry of Business, Innovation and Employment and the Ministry for the Environment need to carefully consider technical implementation, noting that global guidance is in its infancy with best practice continuing to be defined and evolve. As such, other jurisdictions have not yet made TCFD mandatory for reasons including (a) there is insufficient consensus across the market on key assumptions underpinning scenario work and (b) local weather impacts under global climate change models have not been established and provided publicly to enable small and large entities alike to utilise this information for scenario analysis.

The TCFD calls on companies to disclose their own risks and opportunities under climate change as they pertain to investors' decision making and the company's strategic decision making. There is a wider need for the New Zealand government to develop a roadmap to better understand climate-related risk and opportunities in aggregate, and feed this information into public sector policy, monetary policy, treasury decision making, economic development strategy and community risk management. This, combined with private sector analysis, will increase New Zealand's potential for the creation of resilient communities and sustainable economic growth for generations to come.

We provide more detailed comments below on the proposals to make insurers (including reinsurers) subject to mandatory climate-related financial disclosures in New Zealand.

Consideration of technical implementation is imperative to the successful adoption of the TCFD in New Zealand and the creation of meaningful, comparable disclosures supported by technically robust science, econometric data, population projections, other key assumptions and scenario analysis methodologies. Many of our members are already making TCFD disclosures and some are involved in the development of international standards for this (for example the UNEP FI<sup>1</sup> and the ClimateWise principles).

This is very much an evolving area for both companies and asset owners internationally as they begin, and then work to increase, the sophistication of their TCFD disclosures over time. It is taking a number of years to do this, from increasing governance to deepening understanding of risks and opportunities, to designing and conducting scenario analysis and then evaluating the implications. Mark Carney, the current Governor of the Bank of England and future UN Special Envoy for Climate Action and Finance, noted recently that "The IAIS and UN Sustainable Insurance Forum are monitoring developments in disclosures closely: with a systematic survey of TCFD adoption by insurance firms and they will be publishing a paper on this early next year, including recommendations for any changes. The Climate Change Research Initiative (CCRI) will do the same."<sup>2</sup>

We note that it may be possible for later adopters to move more quickly once experience is shared and guidance etc. has been developed, however it is unclear at what stage this international guidance will be developed and able to be applied in the New Zealand context.

While we strongly support the TCFD and moves towards mandatory disclosures, including for general insurers, it is important these disclosure requirements are introduced in a way that is consistent with evolving international practice and recognise the nature and structure of the general insurance sector in New Zealand. Regulators in many jurisdictions are looking at introducing disclosure requirements

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<sup>1</sup> <https://www.unepfi.org/news/industries/insurance/unep-fi-working-with-16-global-insurers-to-better-understand-risk-implement-tcf-recommendations/>

<sup>2</sup> Remarks given during the UN Secretary General's Climate Action Summit 2019 by Mark Carney, Governor of the Bank of England, available from <https://www.bankofengland.co.uk/>.

but few if any have yet to do so due to evolving approaches to methodologies, scientific modelling and economic and physical risk scenario analysis. There are risks if disclosure is rushed and of poor quality – for example market moves based on incomplete or ill-considered analysis.

## **Nature and structure of general insurers in New Zealand**

General insurance is defined as all insurance that is not life or health insurance. It includes insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as commercial property, product and public liability insurance, and professional indemnity insurance).

There are many general insurers operating in New Zealand, all of which are required to be licenced by the Reserve Bank of New Zealand (RBNZ). The RBNZ's register<sup>3</sup> of licensed insurers currently list 88 insurers in total, which are a mixture of general insurers, life insurers, health insurers and reinsurers and also includes Lloyds.<sup>4</sup> There are also some captive insurers, which are generally related to the energy sector.

Features of the general insurance sector that are worth noting include:

- *They are generally not listed issuers in New Zealand* – One general insurer is listed on the NZX, two are New Zealand mutual insurers and the rest are either privately owned or are listed overseas including in Australia, the United States, Europe and Japan. Lloyds, which has a unique corporate structure that is recognised in domestic regulatory regimes, is also operating in New Zealand.
- *Many general insurers are multinational* - Many general insurers operating in New Zealand are subsidiaries or branches of international insurers. Amongst the international insurers, for some the New Zealand market represents a material part of their total business (e.g. 10% or more) whereas for others the domestic market is a very small proportion of their global business (e.g. 1% or less).
- *Insurance underwritten varies widely* - Some general insurers underwrite insurance products across most or all product lines whereas others offer only a single product (e.g. travel insurance or motor vehicle insurance) or a limited range of products. Some are focussed on consumer or commercial insurance only.
- *A number of insurers are already undertaking TCFD reporting at group level* – Such insurers combined represent a majority of the general insurance underwriting business being undertaken domestically, in terms of market share. Some are directly involved in the development of, and providing support for, deploying TCFD. Not all general insurers operating in New Zealand are however currently undertaking TCFD reporting.

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<sup>3</sup> <https://www.rbnz.govt.nz/regulation-and-supervision/insurers/licensing/register>

<sup>4</sup> Lloyd's of London is an insurance and reinsurance market located in London. The business written at Lloyd's is brought to specialist syndicates, who price and underwrite risk, via brokers and coverholders. Lloyd's is a statutory corporation incorporated by the Lloyd's Act 1871 (UK) by the name of Lloyd's. It operates as a partially-mutualised marketplace within which multiple financial backers, grouped in syndicates, come together to pool and spread risk.

## Climate-related financial disclosures by general insurers in New Zealand

While we strongly support the TCFD it is necessary to consider further how, and in some cases if, mandatory climate-related financial disclosures are applied to:

- general insurers that are listed issuers in New Zealand;
- general insurers that are not listed entities in New Zealand and which operate through domestic subsidiaries or branches;
- general insurers that are privately owned;
- mutual<sup>5</sup> general insurers; and
- reinsurers.

Given the majority of general insurers are not listed issuers in New Zealand<sup>6</sup> it is important to note that the primary rationale of the TCFD and the proposed mandatory disclosure regime outlined in the discussion document, that being providing information to investors, is limited in regard to general insurers as a specific class because where they are listed the investors in those entities are generally looking at the wider groups listed overseas rather than specifically at the New Zealand based branch or subsidiary. We note this is only an issue in relation to those classes of entities such as insurers and banks that are specifically proposed to be required to disclose as other multinationals operating in New Zealand aren't proposed to be included. It is therefore necessary to consider what the rationale is for applying the climate-related financial disclosures to general insurers that are not listed issuers in New Zealand. Not because we oppose disclosures of this kind, we strongly support them, but because it is critical that the rationale for requiring such disclosures underpins what is in practice required from those entities.

We note the prudential regulator RBNZ has developed a climate change strategy, and in line with other prudential regulators is taking an increasing interest in the impacts of climate change on banks and insurers around the world. After referencing this consultation in its November 2019 Financial Stability Report, the RBNZ went on to say 'The Reserve Bank places significant weight on disclosure as part of its broader regulatory framework, and supports efforts towards credible and workable climate change reporting.'

This suggests the RBNZ is likely to be a user of climate-related financial disclosures made by insurers it licences. If the proposals in this document in relation to insurers specifically are predominately a means of providing information relevant to prudential oversight this needs to be made explicit and the proposals considered and developed in that light, particularly given the main purpose of TCFD is disclosure for investors rather than for prudential regulation oversight. It is important the wider regulatory system is integrated and that there are not multiple information overlapping regimes for similar information.

We note that RBNZ (and MBIE) sit on the Council of Financial Regulators, which is now intended to be given a statutory role to coordinate regulators. On the Council's work programme for 2020 is: 'Climate change (led by Reserve Bank of New Zealand) – to facilitate a smooth transition to a low-carbon and climate-resilient economy, while supporting the soundness and efficiency of the financial system.' We also note the *Insurance Prudential Supervision Act* (IPSA) is due to be reviewed and subsequently revised over coming years.

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<sup>5</sup> A mutual insurance company is an insurance company owned entirely by its policyholders. Any profits earned by a mutual insurance company are either retained within the company or rebated to policyholders in the form of dividend distributions or reduced future premiums.

<sup>6</sup> Because they are wholly owned subsidiaries or branches of overseas listed insurers, because they a

### *Multinational insurers and reinsurers*

Requiring separate disclosures by multinationals for individual jurisdictions would also be out of step with our understanding of current global approaches to TCFD, would increase such entities operational costs for operating in New Zealand and would not appear to provide additional value to investors in those entities.

The flexibility afforded by TCFD allows multinational insurers to have the option to include such subsidiaries or branches in group reporting by the listed entity in line with that entity's pathway to increasing the sophistication of climate-related scenario analysis. This enables insurers to ensure that information is meaningful.

We are mindful that where the New Zealand part of a global insurer is a wholly owned subsidiary or branch of a multinational insurer, that any specific climate related risks or opportunities would need to be appropriately considered in the context of the wider organisation. Reporting at a group level allows investors, government/s and others to look at the influence and impact that different parts of the portfolio have on each other, which gives a much clearer picture. Looking at it in aggregate rather than each individual portfolio in isolation is potentially more meaningful because you may have one part of the business that is minimally impacted by climate change and another that is significantly impacted. Where there is New Zealand entity specific information that is material to the TCFD disclosure then this would be identified separately in the group reporting. The likelihood of this would depend to an extent on the relative scale of the New Zealand entity within the wider corporate group. Allowing group level disclosure also reduces duplication as elements of climate-related financial disclosures would generally be broadly consistent within a wider corporate group.

Economic and physical risk scenario analysis requires detailed technical work and approaches are still evolving. Some companies are taking an initial group-level approach (i.e. top-down or bottom-up on a basis other than by country such as business line) with a view to increasing granularity over time as material issues are discovered and technical and scientific capabilities increase. New Zealand level disclosure may entail work that would or could not otherwise be undertaken meaningfully or accurately and which might not be applied in other jurisdictions. The costs and complexity of this, particularly on smaller insurers and potential new entrants, should not act to discourage participation of insurers in the New Zealand market.

In regard to reinsurers, paragraph 106.3 of the discussion document refers to applying mandatory climate-related financial disclosures to reinsurers. A number of reinsurers are licenced by the RBNZ, some of which provide treaty<sup>7</sup> reinsurance for general insurers and/or life or health insurers, and/or provide facultative<sup>8</sup> re-insurance for general insurers. No reinsurers are listed issuers in New Zealand and so would be subject to mandatory climate-related financial disclosures by virtue only of being licensed insurers.

The same issues related to multinational insurers not listed in New Zealand also apply to re-insurers, although there is the added dimension that reinsurers do not provide direct cover to customers and

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<sup>7</sup> Treaty reinsurance is insurance purchased by an insurance company from a reinsurer. Treaty reinsurance represents a contract between the insurance company and the reinsurer who agrees to accept the often homogenous risks of a predetermined class of policies over a period of time.

<sup>8</sup> Facultative reinsurance is coverage purchased by a primary insurer to cover a single risk (e.g. a commercial building) or a block of risks held in the primary insurer's book of business. Facultative reinsurance allows the reinsurance company to review individual risks and determine whether to accept or reject them and so are more focused in nature than treaty reinsurance.

are inherently international by design as this provides diversification. Reinsurers are already treated differently from other licensed insurers by regulatory frameworks in recognition of their different nature, for example under IPSA and in the recently introduced *Financial Markets (Conduct of Institutions) Amendment Bill*. We do not consider there is a strong case for requiring reinsurers to be subject to mandatory climate-related financial disclosures in New Zealand at this time.

#### *TCFD for insurers in New Zealand*

Overall, as stated above we support the TCFD and appropriate requirements for general insurers operating in New Zealand to undertake climate-related financial disclosures because it is important climate change risks and opportunities are being appropriately considered and disclosed by insurers, in line with the existing leadership by the industry globally. In developing these proposals further into legislation and then regulation it is important to further consider, in applying these to insurers in New Zealand specifically, how to:

- provide appropriate flexibility for general insurers to determine how they undertake climate-related financial disclosures to reflect developing international guidance, entities' different business structures and approaches while both ensuring sufficient comparability and meaningful disclosure and maintaining competitive neutrality between different entity types and corporate structures in New Zealand;
- maintain consistency with evolving international practice with regard to these disclosures and the implementation of the TCFD generally as well as in relation to insurers in particular;
- enable entities that enter the New Zealand insurance market to adopt mandatory disclosures over a workable timeframe, recognising that doing it accurately and meaningfully takes time, and that insufficient or inaccurate disclosure has the potential to impact financial markets and decision making;
- have regard to the timing of auditing and accounting standards being updated to reference climate change related risk – noting that standards are still developing internationally;
- have regard to other relevant legislative developments; and
- ensure compliance requirements are proportionate and reasonable so as to minimise cost impacts for customers and avoid discouraging participation in the New Zealand market by insurers and other businesses.

We have provided further comments on relevant aspects of these issues in Part 2 of this submission in response to specific questions posed in the discussion document. ICNZ would welcome engagement on the further development of the proposals in the discussion document.

## **Part 2 – Responses to questions in the discussion document**

In this part of the submission we provide responses to questions posed in the indicated chapters of the discussion document.

### **Chapter 1**

#### *Q.1 Is the TCFD reporting framework the most appropriate framework for New Zealand?*

Yes, ICNZ strongly supports the TCFD. It has received widespread support, including from the global insurance sector. We strongly support aligning New Zealand's reporting framework with that being adopted in other jurisdictions and the TCFD is the most common approach. For reasons of comparability of information and efficiency in implementation this alignment is critical.

Q.2 *Do you agree with the conclusions we have drawn at the end of chapter 1?*

Yes.

## **Chapter 2**

Q.3 *Do you agree with the objective as set out above?*

We support the objective set out in paragraph 49 of the discussion document.

Q.4 *Should other objectives also be considered?*

The adoption of the TCFD as a means to understand climate-related risk and opportunity should not be limited to the private sector.

A picture of New Zealand's climate risk and opportunity will not be provided by a single entity. Rather, there is a wider need for the New Zealand government to develop a roadmap to better understand climate-related risk and opportunities in aggregate, and feed this information into public sector policy, monetary policy, treasury decision making, economic development strategy and community risk management. This, combined with private sector analysis, will increase New Zealand's potential for the creation of resilient communities and sustainable economic growth for generations to come. While elements of this, particularly physical risks, may be addressed in the National Risk Assessment and National Adaptation Plan now required under recent amendments to the *Climate Change Response Act*. Given the size and exposures of government it is critical that it is applying a TCFD type approach to its own financial planning.

Q.5 *Do you agree with the problem definition? Are there other aspects we should consider?*

We support what has been outlined in terms of the problem definition. An additional aspect that needs to be considered is that there is a need for the Government to prioritise science funding to underpin the acquisition and public availability of data on climate change impacts (e.g. changes in weather patterns, nationally consistent flood data etc.). This is critical to enabling entities to determine appropriate scenarios for analysis, to undertake robust and comparable assessments, and to fully assess adaptation options.

## **Chapter 3**

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

We consider that section 211 is insufficiently specific to be the basis for comprehensive and consistent climate change disclosures. We also note the inherently incremental and long-term nature of climate change can lead to uncertainty about whether the impacts are material, particularly in the absence of a specific framework.

Q.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?*

The references to 'environmental, economic and social sustainability risks and other key risks' gives a clear signal towards considering issues such as climate change. It does not however make this explicit and encompasses a wider range of considerations. We also note that as outlined above many relevant entities (including insurers) are not NZX listed because they are multinationals, privately owned or mutual insurers.

*Q.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?*

It is important that the adaptation reporting enabled under new sections 5ZV and 5ZW of the *Climate Change Response Act*, and the climate-related financial reporting disclosures proposed in this discussion document are integrated so as to provide consistent information and reduce compliance costs for entities. It would be preferable that entities are subject to one or other of these requirements, and if to both, then that cross referencing is possible so that duplication is not required.

## **Chapter 4**

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

As discussed elsewhere in this submission, we agree director's current legal obligations in New Zealand require consideration, identification, management and disclosure of 'material' climate-related risks.

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

We agree with the central conclusion of the legal opinion prepared for the Aotearoa Circle by Chapman Tripp, that under current law directors and scheme managers must assess and manage climate risk as they would other financial risks.

## **Chapter 5**

*Q.11 Do you favour the status quo or new mandatory disclosures?*

We agree the arguments outlined in paragraph 94 of the discussion document provide a strong impetus for climate-related financial disclosures and that many firms (including insurers) are already undertaking them in the absence of specific mandatory disclosure requirements.

Nonetheless we support the introduction of mandatory disclosures for the reasons outlined in paragraph 95, primarily because whilst voluntary reporting is increasing it is far from comprehensive, there is a risk of increasing inconsistency in the absence of clear standards for disclosure, and because there is a need for wider adoption.

We comment on the application of mandatory climate-related financial disclosures to various classes of entities, including types of insurers, in our response to Question 21 below.

The timing of the introduction of mandatory disclosures needs to align with the development of global standards on these issues and provide enough lead-in and transition time for entities to be able to comply. We discuss these timing issues further in response to Questions 19, 20 and 33 below.

*Q.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?*

Yes, ICNZ supports the introduction of mandatory (comply-or-explain) disclosures based on the TCFD framework. Clear guidance on what constitutes compliance with the TCFD and materiality for different entities is critical, noting the need to stay in line with international guidance on methodologies and best practice, which continues to develop and evolve.



*Q.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?*

While legal, competition, market and growing regulatory pressures are already creating a clear impetus for action, ICNZ considers that a mandatory (comply-or-explain) principles-based disclosure system will provide a way government and investors can be confident that risks would be routinely considered in business and investment decisions in New Zealand. While reporting is increasing, we don't think the status quo is likely to deliver a high level of confidence in the foreseeable future across all relevant entities and sectors.

*Q.14 Do you consider the TCFD framework to be best practice in relation to climate-related financial disclosures?*

Given its widespread international adoption and endorsement we consider the TCFD framework is the appropriate framework for New Zealand.

*Q.15 What are your views about whether the TCFD's recommended disclosures will provide useful information to institutional investors and other users?*

We agree that the TCFD's recommended disclosures, combined with developing international guidance on methodologies and best practice, will provide useful information to investors and other users.

*Q.16 Do you think the proposed disclosure system will encourage disclosing entities to make better business decisions?*

Undertaking the work required and making climate-related disclosures should in general support businesses making better decisions. The process of information gathering, and the analysis of the risks and opportunities related to climate change required by disclosing entities should support better decision making and risk management. Public disclosure will also provide reporting entities with market incentives to steer their organisations in a more sustainable direction.

The extent to which the proposed mandatory disclosure regime encourages better business decisions will depend on the extent to which climate change issues are material to an entity's business and the extent to which it is not already undertaking this work voluntarily.

*Q.17 Is the definition of materiality in the IASB Conceptual Framework for Financial Reporting appropriate for this purpose?*

We agree it is appropriate.

*Q.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 consider the proposed approach to be logical and appropriate. However, legislation should be drafted with sufficient flexibility to allow for the inclusion of exemptions or dispensations to accommodate various business structures (for example the unique structure of Lloyd's).

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

We support a transition period because it takes time for entities to design and imbed the necessary governance changes and to develop, undertake and apply the analysis required to fully meet TCFD

reporting. This is particularly important given the difficulties in achieving information comparability and consistency between different firms and the challenges in using scenario analysis for climate related risks. Indeed, the definition of 'fully meet' continues to evolve and will need to be defined for the New Zealand context.

As well as the transition period for all existing firms whenever the regime initially commences (e.g. in 2022), consideration needs to be given to how new firms in future (i.e. newly established domestic firms or multinationals that enter New Zealand) comply with a mandatory climate-related disclosure regime once the regime is in full effect. It may not be practical for full reporting to be required in their first year of operation.

We comment on the appropriate length of a transition period in response to Question 20.

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

The first issue to be considered is what the transition period relates to and this in turn depends on the application of comply or explain, how 'disclose fully' is defined and/or depth of guidance. For example, some entities already disclose against all TCFD recommendations but there is variance in terms of the depth and sophistication of disclosures over time, as well as the assumptions and econometric and scientific inputs used for scenario analysis.

In principle a one-year transition period looks like a broadly sensible approach for a transition (i.e. to enable an entity to meet a requirement to report action (or inaction) against all recommended TCFD disclosures). However, given uncertainty around approaches to TCFD reporting (e.g. the technical considerations outlined in standards are still evolving) and when mandatory requirements will be introduced, and therefore when the transition period might commence (6 months after finalisation?), it will be necessary to revisit this closer to the introduction of the requirements.

We also note that in regard to the insurance sector in New Zealand the next few years are likely to be extremely busy from a regulatory compliance point of view:

- Insurers are moving to a different accounting standard (IFRS 17) and this currently has an effective date of 1 January 2022. This change has fundamental implications for entities' accounting and will likely also have consequential effects on prudential requirements and tax obligations.
- Financial services entities including many insurers are currently progressing projects to add or change various systems, processes and collateral etc. to be able to comply with financial advice reforms that come into effect from 29 June 2020. This also involves entities applying for a financial advice provider licence from the FMA by mid-2022 at the latest.
- Insurers will be required to further add or change various systems, processes and collateral etc. to address the requirements in the recently introduced *Financial Markets (Conduct of Institutions) Amendment Bill*. This will include a further licensing requirement with the FMA. Timing of commencement depends on progress of the legislation and subsequent regulation but there are general indications of commencement of this regime during 2022 or 2023.
- Legislation making significant changes to insurance contract law is intended for introduction in late 2020 and depending on its progress these changes may also commence in the 2022/23 period.

*Q.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?*

As outlined in Part 1 of this submission we support moving towards mandatory (comply-or-explain) climate-related financial disclosures for listed issuers, asset owners (i.e. institutional investors) and asset managers (i.e. investment managers) as well as banks and insurers.

We note the discussion document is inconsistent in the proposed scope with regard to insurers. The summary table on page 9 refer to 'general insurers', paragraph 106.3 refer to 'general insurers, including reinsurers', whereas Question 21 refers to 'licensed insurers', which includes general insurers, life insurers, health insurers and reinsurers. It is therefore not clear from the discussion document itself what the proposed scope is in terms of insurers, however, we understand from officials that the intent is to apply to all licensed insurers.

As outlined in Part 1 of this submission ICNZ supports mandatory climate-related financial disclosures by listed issuers, asset owners and managers and, registered banks and general insurers operating in New Zealand, but not by reinsurers. We also outlined on page 6 of our submission above the considerations that need to be applied in determining how this is implemented. This includes determining how various kinds of insurers, including multinationals with local subsidiaries or branches, would be expected to undertake disclosure.

ICNZ does not take a position on mandatory climate-related financial disclosures being applied to life or health insurers specifically or whether others such as non-bank deposit takers should be included.

We note the proposals in the discussion document are focussed on non-government entities, much of the rationale applies equally to central government and local government. While reporting from some entities can be required under recent amendments to the *Climate Change Response Act*, and that Act now requires the provisions of National Risk Assessments and Adaptation Plans in future, given the size and climate-related exposures (e.g. economic and physical) of government it is critical that government is applying a TCFD type approach to its own financial planning.

*Q.22 Should any other classes of entity be required to disclose?*

We agree with the comments in page 107 of the discussion document that private companies are equally subject to the impacts of climate change. We are also mindful there are a number of significant privately-owned companies in New Zealand that are also exposed to climate change.

*Q.23 Should there be an exemption for smaller entities?*

In principle yes because although the nature of TCFD is inherently flexible in its application there is the potential for the costs of implementation to outweigh the benefits. While even small entities may be exposed to climate change it is important the application of any new requirements is proportionate for all entities.

*Q.24 If there were to be an exemption:*

- (a) What criterion or criteria should be used: annual revenue, total assets, a combination of the two, or some other measure or measures?*
- (b) Which dollar amount or amounts would be appropriate?*
- (c) Should there be a requirement to adjust for inflation from time-to-time?*

In general we support considering an exemption for smaller entities. Different criteria may be required for different types of entities (e.g. for listed companies as compared with asset owners or asset managers). We have specific views on potential criteria for general insurers (see below) but don't have specific views on criteria for other entities. It would be logical for the approach across sectors to be broadly consistent.

In relation to general insurers, if there were to be an exemption the most logical criterion would relate to annual gross written premium (GWP) in New Zealand, which effectively represents insurers revenue. This is commonly used in the insurance sector as a proxy for an insurer's size in a market.

In terms of annual GWP we suggest a level in the order of \$100 million per annum in New Zealand may be appropriate. We note there are more than ten general insurers above this level at present and we estimate those above this threshold represent around 97% of the general insurance market by GWP. It may be also be appropriate to consider an asset threshold as insurers are also significant investors. We would welcome more detailed engagement on criteria for an exemption in relation to insurers.

It would be logical for any dollar amounts used to determine an exemption to be adjusted over time to reflect inflation or any other material changes in market conditions or circumstances.

*Q.25 What are your views about our proposal to have a stand-alone climate-related financial disclosure report within the entity's annual report?*

We appreciate the rationale for a stand-alone climate-related financial disclosure report within the entity's annual report. Stand-alone works well from an assurance point of view if as proposed it is not audited. We do however have a concern with this specific option being mandated because companies may have legitimate reasons for integrating their reporting or undertaking it in different ways as a consequence of their corporate structure in New Zealand (e.g. branches).

We also note TCFD disclosures are currently reported through a number of common avenues including CDP, Asset Owners Disclosure Project, CDSB, GRESB, GRI and SASB.

*Q.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?*

We support disclosing entities being able to include cross-references or mappings within to assist users to find relevant information. The need to duplicate disclosures should be avoided and we are mindful that some information could be more detailed or extensive than would commonly be found in an annual report.

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

Requiring entities that determine following assessment that they are not required to make climate related disclosures to disclose why in their annual report seems appropriate.

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

We agree that there are both demand and supply-side constraints and uncertainties at this stage related to assurance of climate-related financial disclosures. We are mindful that assurance of forward-looking analysis is very different from assurance of backward-looking financial statements. Future looking scenarios etc. will be underpinned by many subjective judgments.

Accordingly, we do not support imposing mandatory assurance obligations at this time. There may however be scope for exploring mandatory reporting and assurance of Greenhouse Gas Emissions, noting the need for materiality bounds.

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

Aside from the issue discussed in Question 30 (GHG emissions) we do not support imposing mandatory assurance obligations at this time.

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

We agree that it may be possible for assurance to cover disclosure of greenhouse gas emissions given this is backward-looking and as noted in the discussion document an assurance standard already exists (ISAE 3410), which was originally issued in 2012.

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

As outlined in our responses to Questions 28 and 29, we do not support imposing mandatory assurance obligations at this time.

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

While we do not support imposing mandatory assurance obligations initially, it would be sensible to monitor the development of assurance methods and capabilities and to continue to consider whether it may be appropriate at a later stage to make assurance mandatory.

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

As noted elsewhere in this submission we recognise that quality TCFD reporting takes time. Bringing the disclosure system into force for financial years commencing six months on or after the date that the regulation is introduced is unlikely in itself to allow enough time for an entity to be compliant. This would rely on entities starting work well in advance of the regulations being made and in anticipation of them without the necessary detail. As covered elsewhere in this submission this is also related to other implementation aspects including the transition period.

*Q.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?*

In principle we see a rationale for smaller entities being provided with a longer transition, however, we are also mindful of avoiding making the regime overly complex and creating distortions.

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

We support the proposal to introduce specific legislation that enables new mandatory (comply-or-explain) disclosure requirements to be implemented by Order-In-Council, rather than directing the XRB through an Order-In-Council. Given the underlying rationale and link to financial reporting it would seem logical if such provisions were contained in business law rather than climate change specific legislation, however, as we have outlined it may be also be appropriate to apply equivalent obligations on public organisations. If that was to be the case using climate change legislation may be more appropriate.

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

Government and regulators will play a key role in relation to guidance, development of standards, education, monitoring and reporting. It will be important that guidance is developed in collaboration with the relevant sectors and is consistent with developing international practice. We support such guidance containing detailed information and examples so long as it stays in step with approaches in other key jurisdictions and/or internationally. It should also be sufficiently flexible in order to manage dynamic changes in international guidance.

*Q.37 Are there other activities that a government agency could usefully carry out?*

It will be critical that government continues to fund and make available science and econometric modelling on climate change impacts for New Zealand over relevant timeframes and with sufficient granularity to enable entities to undertake their scenario analysis.

*Q.38 Which government agency or agencies will be best able to carry out these functions?*

It may be premature to determine which agencies should be responsible for guidance, education, monitoring, reporting and any other related functions - or indeed if this should be market or regulator-led. As well as the agencies already outlined in paragraph 135 of the discussion document, we note the RBNZ may have a role, at least in regard to those entities subject to prudential regulation (i.e. banks and insurers).

*Q.39 What would you need to assist you with a full set of TCFD disclosures?*

Please refer to our answer to Question 36. We are also mindful that companies can disclose against all criteria today but what matters is achieving meaningful disclosure. Requirements also remain unclear at this stage as international guidance and approaches are still in their infancy.

*Q.40 What information do you have about the cost implications relating to these proposals?*

It is challenging to estimate the costs given as noted above the requirements and expectations are still evolving globally and have yet to be specifically set here. Other factors to consider are the extent to which local consulting firms are adequately resourced to undertake the various technical work required in support of entities' analysis and disclosure – there would be a high demand for services.

The compliance costs for general insurers will depend on how the new mandatory (comply-or-explain) disclosure requirements are applied, for example the extent to which international insurers will need to complete different disclosures for New Zealand.

Q.41 What information do you have about costs for specific types of reporting entities?

As mentioned elsewhere this is hard to estimate due to both the evolving nature of the requirements and the varying extent to which entities would have undertaken the most costly work otherwise (e.g. because they are already making TCFD disclosures or would have undertaken the modelling for other reasons).

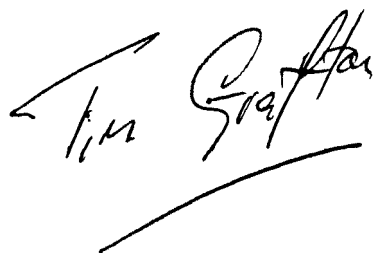
Q.42 Do you have any other comments?

No further comments beyond our overarching comments in Part 1 of this submission and our answers to Questions 1 to 41 above.

## Conclusion

Thank you again for the opportunity to submit on the discussion document. If you have any questions, please contact our Regulatory Affairs Manager on (04) 914 2224 or by emailing [andrew@icnz.org.nz](mailto:andrew@icnz.org.nz).

Yours sincerely,

Handwritten signature of Tim Grafton in black ink, featuring a stylized 'T' and 'G'.

**Tim Grafton**  
Chief Executive

Handwritten signature of Andrew Saunders in black ink, appearing as 'AB Saunders'.

**Andrew Saunders**  
Regulatory Affairs Manager