Climate Change – Regulatory & Risk Update

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Overview

- Climate change regulatory update
  - Zero Carbon Amendment Act and ETS reform
- Current and proposed carbon reporting requirements
- Climate-related financial risk: TCFD reporting proposals
- Obligations on directors and fund managers
- ‘From the coal-face’: litigation risk

1. Climate change regulatory update

Zero Carbon Amendment Act

- Statutory emission reduction targets
- Stepping stone budgets
- Emission reduction plans
- Independent oversight

Emissions Trading Reform Bill

- Bill at Select Committee stage
- Changes to unit price and supply
- Industrial allocation phase down
- Forestry changes

Complementary Policies

- Multiple connected policies: 1 billion trees, agriculture emissions, landfill levy and more
- Renewable Energy and Energy Efficiency (closes Feb)
- ETS settings (closes Feb)
- Adaptation: Risk Assessment and Adaptation Plan
- Corporate reporting proposals

Current and proposed carbon reporting requirements

NZX Listing Rules and Corporate Governance Code

- Recommendation 4.3
- **Issuers should report on:**
  - exposure to environmental sustainability risks
  - risk management plans
  - measurement of targets
- 2019 Guidance Note

Zero Carbon Amendment Act Reporting

- Public organisations and "lifeline utilities"
- Trigger: request of Minister or Commission
- **More targeted reporting requirement**
  - governance
  - processes to identify, assess and manage risk
  - impacts on business, strategy and financial planning
  - metrics and targets
- Not published, unless necessary for statutory function

Other Proposals

- Publishing ETS emissions data
- **Corporate Energy Transition Plans** (submissions close 28 February)
  - energy use and emissions
  - energy efficiency actions
  - plans to reduce emissions by 2030
  - intensity metrics
  - audited, with Board review
- TCFD Reporting

2. Climate-related financial risk – Disclosure

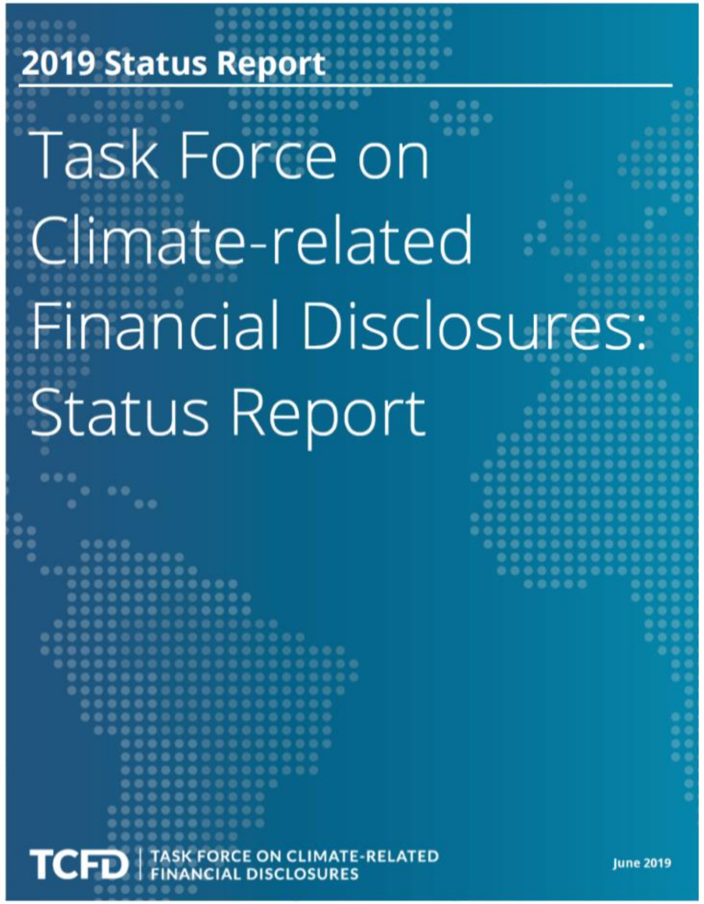


Figure 2

Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Climate-related financial risk – MfE/MBIE proposal

- MfE/MBIE proposal October 2019 (TCFD)
- Proposal to require TCFD-style annual disclosures from listed issuers, banks, general insurers, asset owners, asset managers
- Physical risk + transition risk
- Expected for FY 2022/2023

3. Obligations on directors and fund managers: CT legal opinion

Consideration of climate change as a *potential financial risk*	Directors	Scheme managers
Duty to act in best interests / for proper purposes	Duty much less likely to be litigated	Duty clearly engaged
Duty to exercise reasonable care, diligence and skill	Duty clearly engaged	Duty engaged, but less likely to be litigated

Conclusions of CT opinion

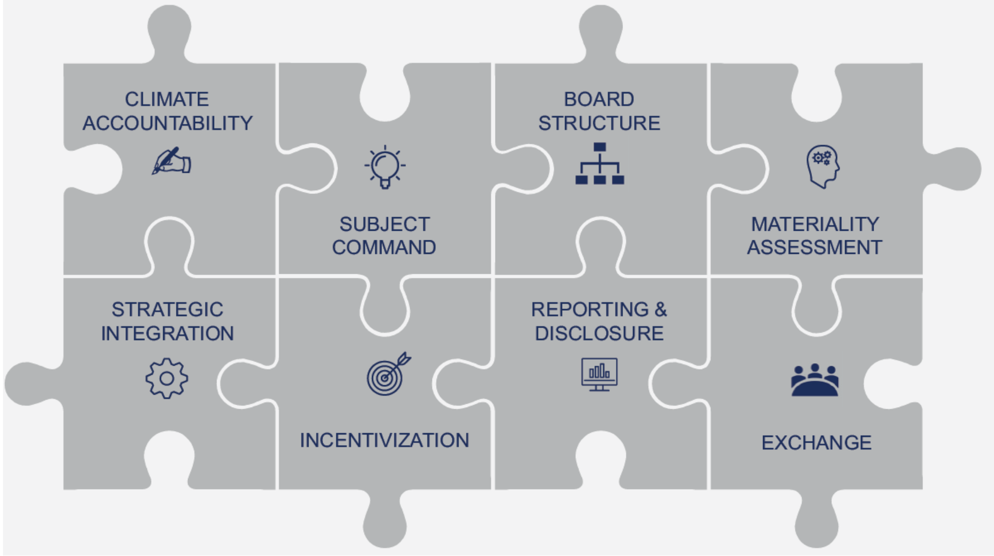
Consideration of climate change *as a potential financial risk*	***Directors***	***Scheme Managers***
Permitted?	Yes	Yes
Required?	Yes	Yes, where material

What this means?

Directors	Fund Managers
Directors must, at a minimum: • identify foreseeable climate related financial risk to the company • periodically assess the *nature* and *extent* of the risk, including by seeking and critically evaluating advice as necessary • decide whether to take action in response, taking into account the *likelihood* of the risk occurring and possible resulting *harm* • *disclose* material risks as appropriate	Fund managers must, at a minimum: • ensure SIPO and marketing reflects investment policy • when making investment decisions, take climate change risk into account (including potentially through climate change investment strategy) if a *material financial risk* • during ongoing portfolio review, keep updated on climate change risk and take action if material financial risk evolves

Implications for Boards of Directors

- Agenda
  - identify risks
  - assess nature and extent of risks (including advice)
  - consider potential action
    - likelihood of risk occurring
    - possible resulting harm
- Expertise
  - board sub-committee
  - management
  - advisors
- Reporting / disclosure



World Economic Forum

Implications for fund managers

- Investment committee (investment decision)
  - review risk appetite; investment horizon; SIPO
  - consider overall exposure and materiality of potential climate-related risk
  - consider formal climate change investment strategy: climate change adaptive stocks
- Ongoing review of portfolio
  - keep abreast of regulatory changes (NDCs)
  - ensure understand investor preferences / expectations
  - update SIPO; marketing materials
- Expertise
  - consider advice on impact of potential regulatory change on investments; stranded assets; market preferences

4. From the coal-face: Litigation risk

- *Commonwealth Bank of Australia*
- *Exxon* – NYAG investigation
- *Enea* – Polish construction of coal-fired power plant
- *Shell* (Netherlands)

Questions?

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