

## SUBMISSION OF TRANSPOWER NEW ZEALAND LIMITED ON THE CLIMATE-RELATED FINANCIAL DISCLOSURES DISCUSSION DOCUMENT

*Note: this submission was lodged using the MfE online form, and the format will have changed from this document*

### General submission

Transpower is the State-Owned Enterprise that plans, builds, maintains and owns and operates the National Grid – or high voltage transmission network – that carries electricity around the country.

Transpower is the system operator, managing the wholesale electricity market through scheduling and dispatching the electricity in real time, providing short-to medium-term forecasting on all aspects of security of supply and managing supply emergencies<sup>1</sup>. We have an overview of the national electricity system.

Transpower has an interest in climate-related financial disclosures for a number of reasons. Firstly, Transpower is a debt issuer under the NZX. Transpower has a number of subsidiaries – we carry out group reporting.

It is also a signatory to the Climate Leaders Coalition. As part of that Coalition, Transpower has committed to voluntarily measuring and reporting greenhouse gas emissions, setting a public emissions reduction target and working with our suppliers to reduce their emissions. We have been working towards mandatory reporting. But, even with this expectation a managed transition to mandatory reporting is important to ensure efficient processes and effective reporting. Transpower accepts that the effects of climate change present risks to Transpower assets.

Finally, we note that Transpower is also a reporting organisation under the Climate Change Response (Zero Carbon) Amendment Act 2019 (**Zero Carbon Act**).

We appreciate that electrification has a key role to play in New Zealand's transition to a low-carbon economy. In this regard, there are both opportunities and challenges for Transpower. We devote a significant effort to understanding the future electricity demand and supply opportunities, as well as the challenges of changing energy production and consumption patterns and technologies. Transpower's project "Enabling New Connections" is considering what Transpower and the industry need to do to ensure timely, efficient grid investment can support New Zealand to meet its significant decarbonisation challenge.

### Chapter 1

#### Q1. Is the TCFD reporting framework the most appropriate framework for New Zealand

Transpower accepts that the TCFD reporting framework is internationally recognised as best practice for climate-related financial disclosures. It has become the de facto global standard. Transpower considers that it is the most suitable reporting framework for New Zealand. We also note that adopting this framework allows for comparable disclosures with other jurisdictions (such as the United Kingdom and Australia).

As discussed above, Transpower is a "reporting organisation" under the Zero Carbon Act. The information to be reported was amended following the select committee process to align with the TCFD reporting framework. Transpower considers it important that there is consistency across

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<sup>1</sup> Electricity Act 2010, section 8(2).

various Acts and Regulations which require climate change disclosures. This approach will ensure efficient reporting, where a single report or reporting mechanism can meet multiple regulatory or statutory requirements.

## Q2. Do you agree with the conclusions we have drawn at the end of chapter 1?

Nine conclusions are listed at the end of chapter 1:

1. Climate change presents material financial risks, both transitional and physical, to many businesses.
2. Responding to climate change presents investment opportunities in areas such as: renewable energy, energy efficiency, adaptation of infrastructure, and land use in farming and forestry.
3. Climate change is not material to every company of scale. However, it is not possible to know that without first testing the proposition.
4. Businesses that identify and manage material climate-related information will be better placed to manage risks and seize opportunities.
5. Capital will be allocated more efficiently and profitably if entities disclose material climate-related risks and opportunities to investors.
6. Pressure is building from institutional investors for companies to make climate-related disclosures, and is likely to continue to increase.
7. The TCFD recommendations have received widespread support and are considered best practice for climate-related financial reporting.
8. As the understanding of, and approaches to, climate-related issues improve, so too will the quality of climate-related financial reporting.
9. As the number of entities disclosing high quality climate-related information increases, companies whose disclosures do not meet expectations will increasingly be subject to scrutiny from investors. Climate-related financial reporting will only be fully effective when the effects of climate change are routinely considered in business and investment decisions.

At a broad level, Transpower is comfortable with the conclusions reached in Chapter 1 of the discussion document. Our submission addresses many of these individual conclusions in further detail.

## Chapter 2

### Q3. Do you agree with the objective as set out above?

Transpower partially agrees with the objective set out in Chapter 2, paragraph 49, to:

“move to a position where the **effects of** climate change become routinely considered in business and investment decisions in New Zealand. ...” (emphasis added).

The *effects of* climate change are different from the *effects of activities* on climate change. Transpower considers it would be useful for the objective to explicitly address both. (Both are referred to in the TCFD.)

We note that similar clarification was made to the Zero Carbon Bill, following the Select Committee process. It now explicitly refers to both mitigation and adaptation.

### Q4. Should other objectives also be considered?

Yes – see Q3. Transpower considers that the objective should explicitly refer to the “effects of activities on climate change”, in addition to the “effects of climate change.”

### Q5. Do you agree with the problem definition? Are there other aspects we should consider?

Transpower is generally comfortable with the problem definition articulated in paragraphs 50-60, with the following headings:

- “The market does not currently have the information it needs”;
- “The status quo is not delivering information at the required pace”;
- “The challenges of the status quo on disclosure”;
- “The benefits of adopting the TCFD early”; and
- “Concerns about introducing mandatory reporting”.

We also note that the Zero Carbon Act requires “reporting organisations” to provide information, consistent with the TCFD, to the Minister or Commission on request. These organisations effectively have a mandatory requirement to gather this information, with “on-demand” reporting<sup>2</sup>.

## Chapter 3

### **Q6. What are the implications of section 211 of the Companies Act 1993 for the disclosure of material climate-related information in annual reports?**

Transpower considers that there is a tension between section 211 of the Companies Act 1993 and the TCFD disclosure requirements. Section 211 allows information about “any change in the nature of the business” to be excluded from an annual report if the board believes the information to be “harmful to the business of the company or of any of its subsidiaries.” There is the potential for reporting on climate-related risks (or premature disclosure of opportunities) to be harmful to a business, and therefore currently able to be withheld under the Companies Act. Mandatory disclosure would likely remove the ability of a company to withhold harmful information.

We note that reporting organisations under the Climate Change Response Act 2002 will no longer be able to withhold information from the Minister or Commission (despite section 211 of the Companies Act 1993), although there are qualifications on when public disclosure of the information could be made by the Minister or Commission.

### **Q7. 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 NZX Listing Rules (Rules) require listed companies to disclose in their annual reports whether they have followed the NZX Corporate Governance Code (Code), and if not, the reasons why (Rule 3.8.1). Recommendation 4.3 of the Code, which applies to listed firms states that an issuer should:

“provide non financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational on non financial targets are measured.”

Further, the NZX ESG Guidance (Guidance) (at page 13) provides that listed companies should consider disclosing the relevance of environmental factors to their business models and strategy. Climate change is referred to in the Guidance. It continues that companies should provide data that is accurate, timely, aligned with their fiscal year, business ownership model and based on consistent global standards to facilitate comparability.

Transpower considers that at a broad level the Rules, Code and Guidance require some reporting of climate change risks, opportunities, strategies and metrics. However, the greatest level of specificity

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<sup>2</sup> See section 5ZW(5) – The Minister and Commission must not publicly disclose any information, unless that disclosure is necessary to enable the Minister or Commission to perform a function or duty under Part 1 of the Act.

is contained in the Guidance (including making reference to the 4 themes in the TCFD). Compliance with the Guidance is not mandatory. As a result, there is a level of discretion about how or what is reported, and it could be less than that anticipated by the TCFD and the discussion document. This discretion appears consistent with section 211 of the Companies Act.

**Q8. 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?**

As discussed above, the information that could be requested from reporting organisations under the Zero Carbon Act now aligns with that under the TCFD (this alignment occurred during the Select Committee processes). In theory, the same report could be relied upon to meet the obligations of either regime.

Section 5ZX allows regulations to be made specifying the requirements, the date within which information has to be provided, and ongoing or recurring reporting requirements.

A key aspect of the TCFD reporting is that it is integrated within existing reporting, rather than being stand alone. Transpower considers it important that any reporting occur as part of annual reporting rounds, rather than requests being out of step. It is also important that any regulations under the Zero Carbon Act provide for a transition (for both full compliance and any assurance of the reporting) – see Q20, Q21 and Q28.

## **Chapter 4**

**Q9. Do directors' legal obligations in New Zealand result in consideration, identification, management and disclosure of climate-related risks?**

Transpower agrees that, at a broad level, director's legal obligations result in the need to consider, identify and manage climate-related risks. Importantly, there are qualifications on disclosing harmful information. Further, the extent of any reporting is not mandated, and flexibility exists as to whether this occur.

~~Q10. Do you agree with the legal opinion prepared for the Aotearoa Circle?~~

## **Chapter 5**

**Q11. Do you favour the status quo or new mandatory disclosures?**

Subject to our answer to Q12, Transpower favours mandatory disclosure. As discussed earlier, Transpower is a member of the Climate Leaders Coalition, and has committed to analyse and disclose our climate-related risks. Despite this membership, we favour mandatory disclosure, as it will assist in clarifying New Zealand's exposures to climate related risks and mature our thinking on how to best mitigate these risks. In this regard, our submission on the then Carbon Zero Bill identified "inadequate information on the emissions profile of products or firms" as the second biggest barrier to decarbonisation:

"Our interactions with customers and potential customers highlight consumer and social encouragement for decarbonisation is acknowledged, but the provision of more complete information about emissions for consumers and other groups could provide for greater impetus for individual businesses to act."

**Q12. 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?**

Transpower agrees that a mandatory principles-based disclosure system, such as the TCFD, provides clear guidance to organisations.

However, we note that the Productivity Commission did not merely recommend the adoption of a mandatory comply-or-explain model. Its finding and recommendation about how mandatory reporting should be enacted was quite specific:

F7.10 A standard via the External Reporting Board under section 17(2)(iii) of the Financial Reporting Act 2013 is the most suitable avenue for climate related disclosure in New Zealand.

R7.4 The Government should implement mandatory (on a comply or explain basis), principles-based, climate-related financial disclosures by way of a standard under section 17(2)(iii) of the Financial Reporting Act 2013. These disclosures should be audited and accessible to the general public.

Section 17(2)(iii) allows standards to be made about “the social, environmental, and economic context in which an entity operates”.

Transpower’s preference is for mandatory reporting to be via annual reports, rather than financial reports via a standard under the Financial Reporting Act 2013. A standard is more likely to be rules-based, rather than principles based. Transpower considers that a rules-based approach could undermine the TCFD approach, and consistency of reporting (particularly at a global level). Further, we do not consider it necessary or appropriate to audit qualitative forward-looking information.

**Q13. If the status quo is retained, how can government and investors be confident that risks would be routinely considered in business and investment decisions?**

Transpower is not confident that a voluntary approach will provide the information needed to assist a transition to a low carbon economy in a timely, comparable and accessible manner. See Q11, for further discussion.

**B. Disclosures that would satisfy a ‘comply’ requirement**

**Q14. Do you consider the TCFD framework to be best practice in relation to climate-related financial disclosures?**

Transpower agrees that the TCFD framework is best practice. Corporate Reporting Dialogue set up the Better Alignment Project which aimed to map the alignment of TCFD with other global reporting frameworks. This mapping showed a strong alignment and underpins the importance of the TCFD framework as a global best practice framework for climate-related disclosures.

We also note that TCFD offers clear principles and eleven recommendations across four thematic areas, which we understand are well suited to most organisations.

**Q15. What are your views about whether the TCFD’s recommended disclosures will provide useful information to institutional investors and other users?**

We consider that the TCFD’s recommended disclosures will provide useful information to investors and other users. Our view is based on recent market feedback to the how-to implementation guide published by the Climate Disclosures Standards Board and the Sustainability Accounting Standards Board in May 2019.

**Q16. Do you think the proposed disclosure system will encourage disclosing entities to make better business decisions?**

Transpower considers that voluntary disclosure, such as through the Climate Leaders Coalition, as well as the obligations of reporting organisations under the Climate Response Act, will encourage many businesses to make better business decisions (whether they are the disclosing business, or other businesses relying on the information). We also consider that the proposed disclosure system, with its wider coverage, will provide further encouragement for better decision-making.

**Q17. Is the definition of materiality in the IASB Conceptual Framework for Financial Reporting appropriate for this purpose?**

Transpower considers that any definition of materiality should be in line with IFRS. The IASB is the standards setting body of IFRS, and accordingly, Transpower is comfortable with the IASB definition of materiality:

“information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports.”

**C. When it would be acceptable to explain****Q18. 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?**

Transpower is comfortable with the approach suggested. However, we note the discussion document also provides a more general “explain” in relation to why incomplete disclosure has during the first year of mandatory reporting (at paragraph 105.2). Transpower considers this approach is particularly important if the transition period is short.

**Q19. What are your views about providing a transition period where incomplete disclosures would be permissible?**

Transpower considers that a transition period is required, to enable organisations to adjust to the TCFD framework, including adequate assurance over the disclosures. This transition period is particularly important for Strategy Recommended Disclosure 3 (in relation to resilience, taking into account different climate-related scenarios). Transpower understands that overseas-based entities have struggled to meet that TCFD recommendation.

**Q20. If there is to be a transitional period, what are your views on it being for one financial year?**

Transpower considers that the period should be for a least two financial years, and ideally three years, to embed any assurance requirements into regular audit processes.

**D. Who it would apply to****Q21. 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?**

Transpower considers that the listed entities should be subject to mandatory (comply-or-explain) disclosures.

**Q22. Should any other classes of entity be required to disclose?**

Transpower considers that the reporting organisations identified in the Zero Carbon Act should be subject to mandatory reporting, not merely reporting on request by the Minister or Commission.

#### **E. Whether there should be an exemption for smaller entities**

##### **Q23. Should there be an exemption for smaller entities?**

Transpower has no view on whether smaller entities should be exempt. However, the regime should allow group reporting to continue and should not be a trigger for subsidiaries being required to report separately.

~~Q24. 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?~~

#### **F. Where the disclosures would be made**

##### **Q25. What are your views about our proposal to have stand-alone climate-related financial disclosure report within an entity's annual report?**

Transpower is comfortable with the proposal to have a stand-alone disclosure within an entity's annual report (which is not part of financial disclosures under the Financial Reporting Act).

##### **Q26. 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?**

Transpower is comfortable with cross-references or mapping to be provided to assist users in finding more detailed and/or accessible information.

##### **Q27. What are your views about requiring explanations for non-compliance to be included in the annual report?**

Transpower considers that it would be efficient for investors and other parties if any compliance or non-compliance explanations were included in the same document.

#### **G. Independent Assurance**

##### **Q28. Should there be mandatory assurance in relation to climate-related financial disclosures?**

The discussion document (at para 122) suggests that mandatory assurance could be *reconsidered* within two years of a mandatory disclosure regime coming into force. It also suggests (at para 123) that there is a case for mandatory assurance of greenhouse gas emissions disclosures (although the relevant timeframe for this assurance is not provided).

Transpower considers that, in theory, assurance should be mandatory, as it instils confidence with investors and other parties that the disclosures are robust. However, Transpower considers that the assurance industry will need time to adapt to more qualitative and future-looking disclosures.

Transpower considers that assurance should be mandatory after the transition period has ended (not merely reconsidered at that time).

However, Transpower considers that some matters should be exempted from mandatory assurance as assurance may be difficult to accomplish. In particular, Transpower considers that Scope 3 greenhouse gas disclosures (value chain) should be excluded from the assurance requirements.

**Q29. Which classes of information should be subject to assurance if it were to be mandatory?**

Transpower considers that all classes of information, other than Scope 3 greenhouse gas emissions and related risks, should be subject to assurance.

**Q30. Do you consider that assurance should be required in relation to GHG emissions disclosures?**

Transpower considers assurance should be required for greenhouse gas emissions – other than Scope 3 emissions.

**Q31. Is limited assurance the only practicable approach in relation to TCFD disclosures, or is reasonable assurance also feasible?**

Transpower considers that we should strive for reasonable assurance in relation to TCFD disclosures, as it will provide greater confidence to investors and third parties that the information is robust. However, limited assurance may be appropriate initially.

**Q32. If we do not introduce mandatory assurance when a disclosure system comes into effect, should it be reconsidered in the future?**

Yes, see Q28.

**H. Commencement and transition**

**Q33. 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?**

Transpower is comfortable with this timeframe, provided there is a 2-3 year transition period, as discussed in relation to Q20.

~~**Q34. 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?**~~

**I. The legislative means for implementing reporting**

**Q35. Do you have any views about the legislative means for implementing new mandatory (comply-or-explain) disclosure requirements?**

Transpower agrees that any new mandatory (comply-or-explain) disclosure requirements should not be via the Financial Reporting Act 2013. See Q12.

Transpower also agrees that it would be appropriate for any new mandatory (comply or explain) disclosure requirements to be implemented by Order-in-Council on the recommendation of the Minister. This approach allows greater flexibility to alter the transition period and bodies that may be subject to the regime (should smaller entities be exempted initially), and to require assurance at a later date, once there was certainty about the role of, and tools necessary to provide, assurance.

**J. The role of Government**

**Q36. Do you consider that there is a role for government in relation to guidance, education, monitoring and reporting?**

Transpower considers that government has a role in all of the above, for the reasons stated in the discussion document.

**Q37. Are there other activities that a government agency could usefully carry out?**

Transpower considers that it would be useful to have one set of national climatic change scenarios – rather than various local models that could potentially skew reporting. NIWA, the Ministry for the Environment, or the Interim Climate Change Committee could potentially provide this information.

~~**Q38. Which government agency or agencies will be best able to carry out these functions?**~~

**Q39. What would you need to assist you with a full set of TCDF disclosures?**

See Q37.

**K. Costs relating to climate-related financial disclosure**

**Q40. What information do you have about the cost implications relating to these proposals?**

The discussion document notes that the Ministries are seeking information about the net costs of requiring entities to prepare TCFD reports.

As discussed earlier, Transpower is a member of the Climate Leaders Coalition and a Reporting Organisation under the Climate Change Response Act 2002. Neither of these processes set rules for how the reporting is to occur – accordingly, Transpower's process are currently not subject to assurance or auditing.

The costs for Transpower would depend how any mandatory reporting were enacted. We estimate that costs would be incremental, and limited to the costs associated with giving assurance or auditing.

~~**Q41. What information do you have about the costs for specific types of reporting entities?**~~

~~**Q42. Do you have any other comments?**~~