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Climate-related disclosures regime taking shape with first reporting round

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New Zealand now seeing first set of climate-related disclosures

Since the first annual reporting periods for New Zealand's climate-related disclosures regime began in January 2023, covered organisations have started publishing their initial reports under the framework. The new regime makes it mandatory for approximately 200 organisations, including large publicly listed companies and investment managers, to release "climate statements" covering the potential impact of their operations on the climate as well as how the climate may affect their businesses. Among other aims, the framework is intended to ensure that the effects of climate change are routinely considered in business and investment decisions. Covered entities are required to report in accordance with standards issued by New Zealand's External Reporting Board (XRB). Reporting is based on four pillars: governance, strategy, risk management, and metrics and targets.

Nikko AM to issue its first New Zealand climate statement in July

Nikko Asset Management New Zealand is covered by the climate-related disclosures requirement and is scheduled to release its own report in July 2024. Given the nature of our business, it should be noted that we are required to report primarily for our asset management portfolios. However, our report will also cover elements of our governance and strategy as an entity. We have been addressing this area in the years leading up to implementation by engaging with the XRB and other relevant regulatory bodies on matters such as how the standards apply to asset managers. In addition, we participated in an industry-wide workshop attended by all members of the Financial Services Council, the industry association for New Zealand's financial services sector. This was intended to ensure consistency in terms of reporting and scenario analysis assumptions. Three scenarios have been adopted across the asset management industry: "orderly," "too little too late" and "hothouse". Each of the scenarios will be covered in our own climate statement.

Investee companies also releasing climate-related disclosures

Alongside our usual engagement activities with investee companies, we are also initiating discussions with them about their own climate-related disclosures. This includes discussions on the content of their reports, the details of any targets they have, the actions they are taking, and their progress in disclosing climate risks. Our engagement in this area has shown how useful it is to consider funds specifically in terms of climate risk as well as the large extent to which climate risk flows into more traditional risks. As an example, persistent weather events over the next five or ten years are likely to start impacting corporate balance sheets as companies move to protect assets or spend money to repair them. This is also likely to affect companies' liquidity and credit risk. Climate-related disclosures by investee companies will cover certain scenarios in terms of their implications for the company and the assumptions behind each scenario. Reports by companies in the fuel sector, for example, may consider a scenario in which a large-scale transition to electric vehicles causes a decline in fuel consumption and discuss opportunities related to sustainable technology.

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