

Submission on the Ministry for the Environment and Ministry for Business, Innovation and Employment discussion document on Climate-related financial disclosures

This submission is from **Harbour Asset Management Limited** – a New Zealand owned and operated funds management company whose investment philosophy includes promoting best-practice Environmental, Social and Governance (ESG) practices among listed companies and relevant stakeholders. This encompasses advocacy for improved climate change disclosure

Harbour manages over \$5bn for New Zealand clients including many KiwiSaver schemes.

As a fund manager, we support both the Government's intention to introduce a comply or explain requirement for the entities proposed to disclose climate related financial disclosures and the Chapman Tripp group submission to specific questions raised in the discussion document.

Similar to the McGuinness Institute research analysing the disclosure rates of climate change of public and private entities in NZ, Harbour has also conducted deep analysis looking at the public listed equity market where we found an overall lack of disclosure on climate change with the quality of information varying greatly. We believe that enforcing a framework of disclosure such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations will promote companies that do have a material exposure to climate change but have not begun measuring or reporting these risks to begin accounting for this and providing useful information for decision making to their stakeholders.

Institutional investors such as ourselves do benefit from the information provided by the TCFD recommendations, particularly those in the 'Strategy' and 'Metrics and Targets' sections. Sell-side quantitative research has suggested that carbon intensity is one of the most statistically significant ESG factors affecting excess returns for listed companies in the US and Europe. Therefore, this data has direct implications for the investment decision making process and will help fund managers form a better fundamental view of the entity. It will also allow carbon footprinting of portfolios that investors are demanding for visibility on the environmental impact of their investments which can be used as a benchmarking tool relative to an Index or the portfolio's historical footprint.

We acknowledge that the reporting outcomes will be an iterative process that will improve over time but that it is important that companies are encouraged to start this journey to accurately reflect all of their current risks and opportunities with data quality to develop each year.

We also encourage the assurance of the climate change related data reported in accordance with the TCFD recommendations as our research has highlighted the low rate of independent verification of this information among the NZ listed equity market. However, we do acknowledge that this is a costly exercise with auditing

expertise in the area yet to develop so it should therefore come at a lag to the initial proposed reporting requirements.

Harbour are signatories to the UN PRI which will involve mandatory TCFD aligned reporting each year from 2020. This means that for those asset owners and managers who are signatories, this reporting represents little to no marginal cost in providing this information under the proposed legislation if the TCFD framework is selected. However, as was mentioned in the group submission, reporting the climate change data in the 'Metrics and Targets' section on the underlying investments should be required at a later stage after adequate disclosures are made from the companies themselves.

Overall, we are supportive of the mandatory disclosure through the TCFD framework but believe that the Government will have an important role in educating and providing guidance to entities covered by the proposed legislation. This should be in the form of supporting workshops and documents outlining case studies of best practice in implementing the TCFD recommendations so that it reduces compliance costs and encourages higher reporting quality.
