

New Zealand Equity Monthly September 2024

New climate-related disclosures seen bringing both benefits and challenges

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Nikko AM NZ issues its first climate report under new disclosure regime in July

Nikko Asset Management New Zealand (Nikko AM NZ) released its first annual “climate statement” under New Zealand’s new climate-related disclosures regime in July. The framework requires approximately 200 organisations, including large publicly listed companies, to release reports on how their activities may impact the climate and the effect of the climate on their businesses. The first annual reporting periods for the disclosures began in January 2023. Covered entities, including Nikko AM NZ, are required to report based on standards issued by New Zealand’s External Reporting Board. As an asset manager, Nikko AM NZ primarily covers its asset management portfolios in its own climate statement. This means that explanations on how we assess climate risks and opportunities in our funds form a large part of our disclosure. It should be noted that we already do this in our investment process. Given the nature of our industry, climate-related opportunities and risks form part of our risk assessments alongside liquidity risk, management risk and other such considerations. The new regime, however, has made the process more formalised than before. In other words, we are now required to document a larger amount of information and release it in the form of a climate statement.

Scenario analysis in disclosure process seen providing new perspectives

Creating Nikko AM NZ’s first climate statement has given us a sense of some of the benefits and drawbacks we feel the disclosure process involves for covered entities. On the plus side, for example, from the perspective of an asset manager, the scenario analysis part of the process has enabled us to view our portfolios through a different lens. Specifically, our climate statement examines three climate change scenarios that have been adopted across New Zealand’s asset management industry: an “orderly” scenario with average Earth temperatures rising by 1.5°C compared to 1850-1900 levels, a “too little too late” scenario with temperatures rising by more than 2°C compared to the same period, and a “hothouse” scenario with temperatures rising by more than 3°C compared to 1850-1900 levels. Our scenario analysis considers how portfolios may perform against this range of different possible futures. In addition to the additional perspective this provides, we feel that the scenario analysis aspect of the process gives us a useful starting point for discussions in engagement with investee companies.

Cost of creating disclosures among challenges seen for covered entities

As mentioned above, we feel that the disclosure process also poses certain challenges for covered entities. One recurring theme we have found through discussions with investee companies and peers is that meeting the requirement is a time-sensitive and costly exercise. In our view, this may create a barrier to listing on New Zealand’s stock exchange, especially for smaller companies with limited resources. In addition, from our perspective as an asset manager, the need to report on a fund-by-fund basis makes acquiring data quite a challenging process. In our opinion, these challenges highlight the importance of balancing the amount of money and resources needed for the disclosure process with the intended purpose of the climate statements, which is to improve climate action.

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