KPMG

Chapter Zero New Zealand
The Directors' Climate Forum

Institute of DIRECTORS
NEW ZEALAND

Lessons from the front line

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New Zealand's largest market participants are the first organisations in the world to complete mandatory climate reporting. Though there have been challenges in leading the way, the journey has begun.

The guidance in this report has been developed through conversations with those who have first-hand experience delivering climate statements for their organisations. Directors, preparers and users of climate-related disclosures have shared their experiences, challenges, and lessons, from the first year under the **Aotearoa New Zealand Climate Standards** (the Standards). Their advice aims to help other directors, whether captured by the regime or not, to better understand what is required and how to generate value from climate reporting.

The learning curve ahead will continue to be steep given the second-year requirements[1] ask for a significant step up in effort. By working together, sharing learnings with other directors, and being open to the opportunities as well as the risks, New Zealand directors can be ready to unlock the benefits for the entities that they govern. We hope that this is the first of many future discussions sharing lessons learnt and ways forward to advance New Zealand's climate action.

We'd like to thank all those who took time to reflect and share their learnings in contribution to this guidance.

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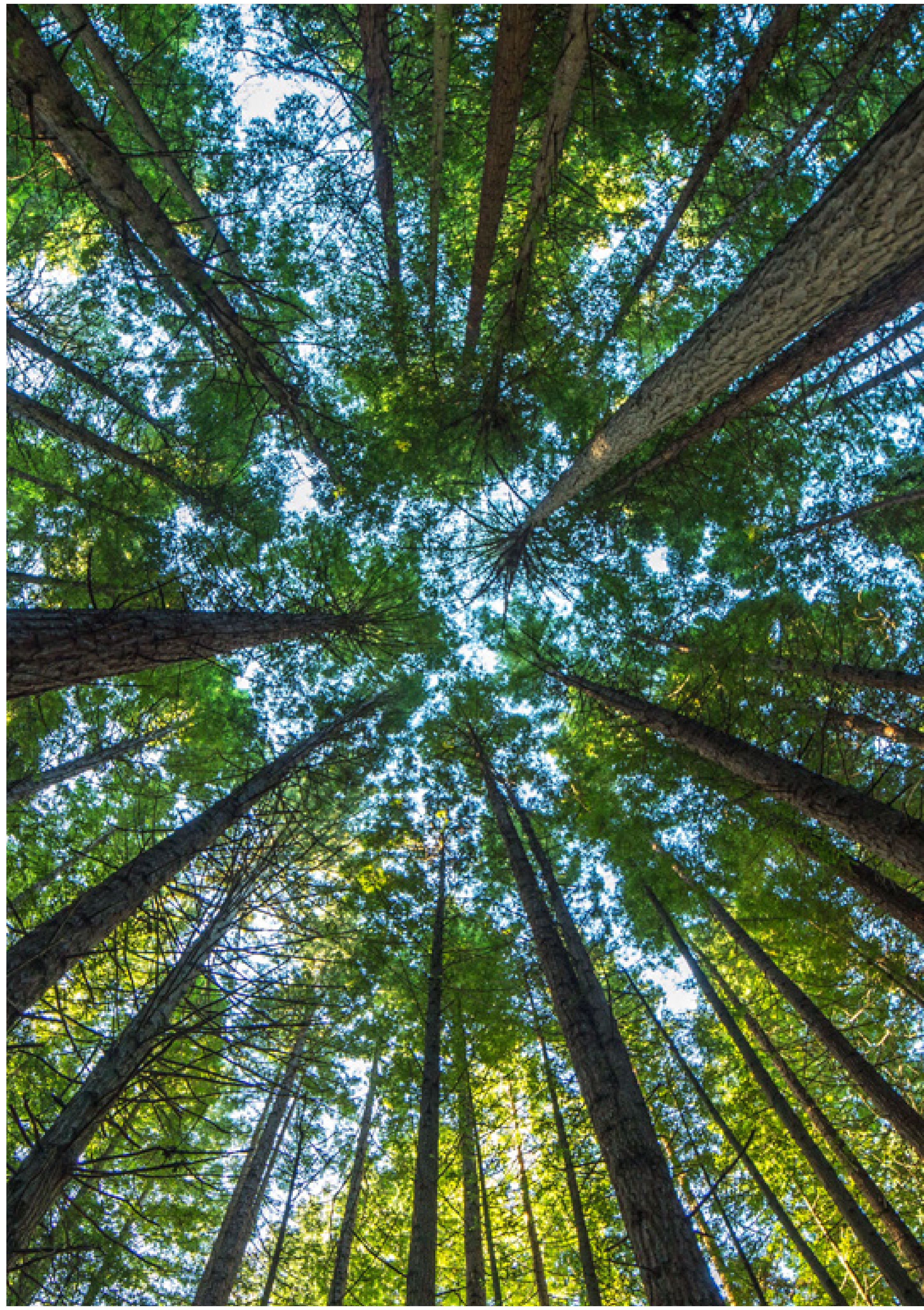

[1] At the time of writing, the External Reporting Board (XRB) have initiated a consultation to defer certain requirements relating to transition planning, anticipated financial impacts and scope 3 emissions disclosures. We urge everyone to review and contribute to this consultation, as this is your opportunity to shape the outcome.

Purpose of climate reporting and requirements

The aim of Aotearoa New Zealand Climate Standards is "to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future". This broader context is crucial to bear in mind when preparing climate statements.

However, reporting in itself is not the end goal; it is about communicating with stakeholders and positioning your business for a climate-changed future.

Directors therefore need to understand how their organisation and value chain will be impacted, demonstrate how they are identifying and managing the risks and opportunities, and decide whether a change is needed to the strategy and business model.

While the content in this report is from those involved in reporting under the Standards, Climate Reporting Entities (CREs), the lessons and advice are applicable across non-CREs. These are particularly useful for organisations:

- that may not currently be mandated to report but want to start working on voluntary reporting;
- need to meet international reporting requirements (such as exporters or entities that operate across multiple jurisdictions);
- are captured by virtue of being requested by your customers and suppliers to provide greenhouse gas emissions information (for example, financed emissions from a lender); or
- could meet the criteria as they grow.

The law requires entities to meet the size criteria for two periods in a row to become a CRE, so directors should review their growth plans and understand when they may be captured by the New Zealand regime. These directors in particular will benefit from starting early – setting the right foundations and putting good governance systems and processes in place to later align with the Standards.

For more on this, refer to the **Best foot forward appendix.**

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01

Directors support disclosures, but have concerns about the practicalities

In year one of mandatory climate reporting, directors have prioritised avoiding any potential risk of greenwashing. For some, this is adding cost and complexity to the process of preparing disclosures, and raising the spectre of unintentional **"greenhushing"**.

To move beyond the compliance mindset, directors will need to further strengthen their climate literacy, get more directly involved, keep focused on the 'why' instead of 'how' of reporting, and connect risks and opportunities to strategic decision making for long-term resilience and value creation.

Greenhushing refers to a company not publicising climate information, fearing negative pushback from stakeholders.

Greenwashing is a practice used by businesses to represent themselves as more sustainable than they truly are.

Whether it's providing misleading information regarding a product's sustainability or labelling a fund as "green" when it is not, greenwashing erodes trust and can have significant repercussions.

Importantly, greenwashing is not a static concept – it occurs on a spectrum ranging from outright deceit to wishful thinking.

Greenwishing, or unintentional greenwashing, describes a practice where a company hopes to meet certain sustainability commitments but simply does not have the wherewithal to do so.

Driven by the pressure to set ambitious sustainability goals, companies can find themselves committing to targets that they cannot realistically achieve, perhaps because of financial, technological or organisational constraints.

Failing to achieve these targets can undermine trust in these companies and in the broader system.

Is it greenhushing?

To greater and lesser degrees, and for a variety of interrelated reasons, New Zealand reporters opted to 'say less' – an outcome that raises questions about whether mandatory climate reporting could unintentionally be having greenhushing effects, as has been seen in other jurisdictions.

On the surface, greenhushing is not overtly dishonest; however, it limits the quantity and quality of publicly available information.

Directors shared experiences of this challenge as they grappled with the requirements of the Standards and possible legal liability. Many directors were apprehensive about including content, such as case studies, that added to the narrative of the disclosure, but were hard to formally verify. However, without this transparency, it becomes challenging to analyse corporate climate targets, and share best practices on decarbonisation.

> "We've had a lot of discussions where we are saying to our advisors, 'is it in the best interest of the company for us to say this?' and if the answer is no, or it's a line call, then conservatism wins, making it hard for the primary reader to understand your upside opportunities.
>
> **– Sheridan Broadbent**

At what cost?

New Zealand directors are supportive of the need for meaningful climate reporting and the transparency and accountability it brings. However, after year one of mandatory reporting, even some of the strongest proponents of climate action and disclosure have identified challenges operationalising the reporting regime.

The focus on managing legal liability – exacerbated by a scarcity of best practice, and by the complexity of the effort required to produce the information needed to comply with the disclosure requirements – has created the widespread view that our mandatory reporting regime is overly onerous. When viewed through a compliance lens the investment was variously described as "eye-wateringly high", "ridiculous", "horrendous" and "hard to justify".

Furthermore, the extent to which CREs are exposed to climate risk and opportunity varies widely. While potential benefits are often proportional to this, the reporting task is not. A CRE with lower material risk, operating in a low-emissions sector, has the same obligations under the Financial Markets Conduct Act 2013 as a high-emitting CRE with a complex portfolio of elevated risk. Although facing a similar sized (and priced) challenge, the opportunities to realise benefits are naturally smaller for some entities. However, the Standards encourage reporting on relative performance with the inclusion of industry-relevant metrics and targets. This allows for comparisons against peers in New Zealand and internationally, and should offer more value over time as more reports are published.

Currently, the sentiment from directors is that the investment – from internal resourcing and upskilling, to external support – and benefits are out of balance. Expectations are that, as maturity increases, systems and processes are established, and all parties involved (including external experts) increase their experience with the requirements, the costs may reduce. From a board perspective, increasing familiarity and involvement with the process may reduce the costs associated with fears of greenwashing.

Integration of climate reporting into existing functions and processes will introduce efficiency, requiring less time and resource. The investment required to build capability in the first year will also prove valuable going forward. Finally, benefits will be realised as maturity grows – both as reporting drives action and as the market becomes more confident in interpreting and responding to climate disclosures.

The value gained

As intended, mandatory reporting increases the focus on climate. Climate reporting regimes are being established around the world because there is a strong demand from capital market players worldwide to have consistent, standardised reporting to enable investors to monitor and compare different opportunities and divestments.

Stakeholders, from investors, to employees, to customers, are starting to seek greater transparency around how organisations are reducing their impact on the climate and building resilience for the future.

Entities at earlier stages of their climate journey are compelled to make rapid progress. The organisation-wide approach needed in order to comply with the Standards has the potential to drive positive cultural change, improve cohesion between governance and management and lift capabilities across the topics of climate, risk, reporting and strategy.

> It does what it was meant to do – it gets everyone focused on climate.
>
> – MJ Daly

> The value is in all the conversations that were had to generate the report — having the same minds and voices in the risk discussions, the strategy discussions, the reporting discussions.
>
> Reporting has brought alignment and understanding across some pretty technical areas of both strategy and climate risk.
>
> – Lindis Jones

Robust boardroom debates generate greater alignment and improved decision making. However, this means boards need to incorporate potential climate risks and opportunities as a core component of decision making, which in turn requires management to consider climate impacts in every decision paper presented.

Elongating strategic horizons past traditional business planning timeframes through using tools like scenario analysis, creates opportunities to better manage risk and build (or retain) long-term value. Working through these steps together raises awareness of the transformation needed to meet the challenge of climate change. The board and management are exposed to the significant value at risk from climate impacts and have a framework to address this.

Scenario analysis

Scenario analysis is a tool to enhance strategic thinking on climate-related risk and opportunity. Climate-related scenarios are plausible, challenging descriptions of how the future may unfold. These descriptions are based on coherent and internally consistent sets of assumptions about the drivers of future physical and transition risk and opportunity (and the relationships between them).

Resources » XRB

The elimination of greenwashing – both intentional and via aspiration creep (greenwishing) – is also a well accepted benefit of climate reporting. Regulation and legislation are two proven tools around the world for clarifying what counts as 'green' and creating consequences for those who fail to sufficiently articulate their message in line with applicable standards.

The Standards have shone a light on climate change and made directors more aware that it is their responsibility. Disclosures then provide a platform to demonstrate to stakeholders how the risk is being mitigated and value protected and captured. It can also enable entities to see if their value chain partners are doing the same.

“

If we are going to be competitive, if we are going to win in the marketplace, retain and grow our market share, we need to be doing this.

It becomes part of the evaluation criteria – your customers will expect it, your suppliers will expect it, your people will expect it.

– Ross Buckley

First mover challenges

New Zealand's international leadership in climate reporting, while laudable, has increased the first-year challenge for directors.

As global pioneers, New Zealand directors cannot consult established best practice and some misalignment with major trading partners' reporting requirements is now emerging. Without templates, exemplars or experienced experts, our entities faced steep and often unsupported learning curves. The caveat, however, is that New Zealand's reputation has benefitted from this proactivity.

Directors have also highlighted that meeting the requirements of the Standards pulled resources away from other climate initiatives focused on action. While expected to be primarily an issue in the early years, there is no desire for reporting to take over the actual management of climate-related risks and opportunities. This again speaks to the complexity of embedding new reporting regimes. Our Standards are based on the globally recognised Task Force for Climate-related Financial Disclosures (TCFD) framework, which some entities have been using for a number of years; however, there is a significant difference between applying a voluntary framework and being legally required to comply with mandatory reporting requirements.

The complex challenge of developing and validating forward-looking disclosures has had unintended consequences. The verification process takes time and resources, and directors reported instances where "the juice just wasn't worth the squeeze".

The fear of liability meant that some decided it was simply easier to exclude a range of illustrative context and content. This kind of content, for example the case studies often included in voluntary climate reports, helps engage important stakeholders like employees and the so called "retail" type investors. Without it, the reporting may become more opaque and less valuable in the eyes of some.

Moving forward

The way to enhance the value of climate reporting, and the challenge for the future, is to elevate reporting past compliance. Instead of considering it a 'stick', directors can reframe New Zealand's Standards as a 'carrot'.

It is a framework capable of helping organisations understand, in real terms, the impacts of climate change – and to plan the necessary adaptation required to operate in a climate changed world.

The directors included in this guide have shared their lessons from the first year of mandatory reporting, but also had an eye on the future, where reporting requirements increase as adoption provisions expire. Investments made and challenges overcome through this first year have the potential to bring more value with each year of reporting as entities make progress on mitigating their risks and seizing opportunities.

> "Eventually the whole world is going to get into this space, so people avoiding it are just temporarily dodging the issues.
>
> – John McMahon

02

Practical advice from the front line

Advice on preparation

- All organisations need to prepare for some level of reporting
- Start now – you need time
- Lift board knowledge, understanding and alignment
- Be clear on the 'why'
- Build your organisational knowledge and information

Start early and assess the business case for action

The scale and complexity of completing mandatory climate reporting shouldn't be underestimated. Even long-time voluntary reporters with mature climate strategies were surprised at the step up required (with most predicting an even steeper learning curve for year two). The very strong advice is to start reporting preparation as early as possible.

Even organisations not required to make mandatory disclosures should consider the growing importance of climate reporting. Securing finance, insurance and the confidence of the market is increasingly dependent on organisations being able to demonstrate climate readiness.

Regardless of size or obligation, starting the climate reporting journey makes good business sense as it will help you better understand your risks and opportunities. It can also make it easier for businesses that grow, and consequently fall under the regime, to report against the Standards as much of the foundational work and alignment will have been done.

> "It's the sort of thing that you can't leave to the last minute to implement because it takes too long.
>
> A lot of effort has gone in. We did some dry runs a year or two earlier, we did some pre assurance – all that's worked really well.
>
> – **Ross Buckley**

‘Starting early’ will look different for each organisation depending on their maturity and what is most material to them, but may include:

1. Getting your governance structures and processes in place and establishing roles and responsibilities.
2. Making sure climate is on the board agenda regularly.
3. Understanding what resourcing is required, what your organisation's capability and capacity is, and identifying any gaps. Boards should do this to understand what is at stake and what resources are needed.
4. Boards of non-mandated entities may consider commissioning an understanding of the business case for climate reporting to uncover capability and resourcing requirements.
5. Establishing what is most material to your business and what value is at risk.
6. Confirming the objective behind your report or disclosure, e.g. reporting requirements, aligning with overseas customers or export requirements, demonstrating progress.
7. Understanding what you will be required to sign off in your disclosure and ensuring you are sufficiently involved or informed to do so.

“

Getting your head around it is the difficulty. You need to decide how much you want to change your business strategy out to 2050 and how fast you want to go.

You need to know what everyone else in your sector is going to do, but it's specific to you.

You need to understand your organisation, what you control and what you can't.

You need to understand the level of engagement your customers and staff want. It's a complex challenge.

– John McMahon

> We've done a lot around sustainability and reducing emissions for a long, long time and we have an excellent track record.
>
> But the reporting threw up differences in thinking and strong debate about what we will and won't do.
>
> – MJ Daly

Optimal governance requires engagement and learning

Boards make better decisions when all the directors around the table have similarly robust subject knowledge, a clear understanding of the task, and alignment of values and purpose.

Even seasoned voluntary reporters were surprised at the board capability growth required to complete year one reporting, and the resultant impact on what could be reported with confidence. Having a framework to assess and address board training needs would be beneficial for the capability growth of current and future directors. It can also help focus investment on the areas of knowledge the board specifically needs upskilling on, reducing potential costs or resource requirements.

Within some boards the mandatory regime both exposed, and was hindered by, poor alignment within boards (and management) around the entity's climate ambition and what to include in the final report. Resolving differences early, or agreeing this before starting reporting, yields a smoother process and better results.

Transparency and accountability are cornerstones of a successful climate disclosure process. Notwithstanding legal liability, the size and complexity of the reporting task warrants the board to think carefully about where the responsibility lies, whether that should be within existing board structures or creating a climate subcommittee. Some first-year reporters created due diligence committees and ran a process akin to that used for a capital raising exercise.

Clearly understanding roles and responsibilities enables management and the board to work together optimally. The board's role is not set and forget. Directors need to be involved throughout the process as assumptions are tested and decisions reviewed. Some reporters found that failing to have boards involved from the beginning caused problems downstream with work needing to be significantly reconsidered and repeated.

> You need a 'nose in, fingers out approach'. Directors need to be more engaged. Don't wait till the end to get involved.
>
> If you stand back and wait it's not going to meet your expectations and it's too hard to redo it.
>
> – Ross Buckley

Advice on building board alignment and capability across:

Climate knowledge	Reporting	Strategic intent
Ensure all directors have a good, science-based understanding of climate change and the high-level risks and opportunities, both physical and transition. Build specific understanding of the current organisational climate strategy, initiatives, risks and opportunities, metrics and targets. Collaborate to gain shared industry understanding and learnings.	Align directors on the need for, and benefits of, robust climate reporting. Develop a working understanding of the XRB's Climate Standards including their: • Purpose • Objectives • Components • Requirements • Liability. Understand the scope of work ahead — both at an organisational and a board level — and the resourcing required.	Board alignment across values and position is imperative to the decision making required throughout the reporting process. Even boards who had completed voluntary reporting were surprised to find misalignments that had not previously surfaced. These had to be resolved to complete reporting.

Through these kinds of activities:

Climate knowledge	Reporting	Strategic intent
Whole-board climate upskilling sessions. Join Chapter Zero and make use of the resources, networking and training. Attend workshops and courses like the NZ Institute of Directors' Climate Change Governance Essentials. Make sure climate is on the agenda – and engage with it. Have conversations with other directors and subject experts. Share your experiences with others (particularly if you are on multiple boards). Engage with the sector on developing scenarios.	Engage with experts who can run whole board briefings and workshops tailored to your current capabilities and reporting requirements. Read other organisations' climate statements. Voluntary reporters will find value in: • Taking the time to consider their approach • Getting their systems and processes into place • Upskilling early and building a shared understanding • Exploring scenario analysis, initially through sector scenarios.	Robust conversations to tease out differences across: • Climate ambition • Risk profile • Appetite to lead vs follow • Views on the future of the business or industry. Attending climate-focused events. Whole-board climate upskilling sessions to build understanding together.

Advice on structure and resourcing

- Review your existing board committee structure and charters
- Clarify roles and responsibilities and if appropriate establish a separate reporting committee
- Make progress on climate response and reporting a standing board agenda item
- Resource cross-organisationally with focus on climate knowledge and reporting skills
- Upskill with whole-of-board training
- Take external advice – make decisions internally
- Secure expertise early
- Collaborate by sector

Leverage a team approach

Having the right voices at the table is paramount for success. The exact skills and capabilities matrix required varies by entity, sector and size. The board provides oversight, but individual directors can also take a more 'hands-on' role where appropriate, based on expertise and experience. It was important for board members to upskill as much as possible prior to commencing the reporting process to enable them to "hit the ground running". Combined workshops with the board and management also provided the ability to resolve areas of dispute or disagreement, find common ground and create a cohesive, team approach.

> **You have to properly resource this. The realities of the rules and liability mean you can't avoid it...**
>
> **As directors, you have to be able to sleep at night.**
>
> **– Alan Isaac**

There is ongoing debate as to who should take ownership of climate reporting within an entity. Thinking that your organisation's climate response can sit in one silo will hamper your progress and create disconnects. While assurance and compliance are absolute necessities, the transition to a low-emissions economy requires visionary thinking and an opportunities-focused mindset.

Legal, financial and accounting expertise are valuable parts of the resourcing solution, but senior leadership involvement is essential to ensure there is a long-term, strategic mindset. Optimal climate reporting requires a truly organisation-wide focus, anchored by a genuine commitment to respond to the climate challenge. Boards can play a leading role in making this happen, by setting the tone from the top.

The reporting team should be supported with training and development focused on understanding the Standards, the process required to complete reporting, and how that process can be best used to develop real insights and the robust transition and adaptation plans required to face the climate challenge. Including the full board in training sessions alongside the climate reporting team builds board capability and increases alignment between management and governance.

Engage external expertise, but know where you need it

A variety of external expertise can be brought in to assist organisations with the reporting challenge. However, climate reporting is not something that can, or should be, fully outsourced.

Lawyers, auditors, consultants, sustainability and climate experts can all lead processes and validate assumptions and outputs – however, the core thinking and decision making needs to happen internally and be led by the board. Experts should be selected based on how they complement or add to existing capability and new ways of engaging them could be considered, such as mentoring.

External experts can be a costly upfront investment, while the benefits of their frameworks, processes and insights are realised over the long-term. First-year reporters placed high importance on legal advice and validation, with several following verification processes as stringent as if they were issuing a prospectus or an information memorandum. While debate on the necessity of, and benefits delivered by, this costly approach vary, directors agreed on the need to resource this exercise robustly and appropriately.

Bringing in external expertise also supported the upskilling of staff and the board. While directors absolutely need to consider their legal liability, opportunities to realise benefits can be diminished by an overly risk-averse mindset or context.

New Zealand was the first country in the world to legislate for climate reporting. The pool of expertise working in the field is relatively small (and few have all the answers that companies are looking for), but global interest and experience is growing. While the talent pool will grow over time, demand will almost certainly remain high. Alongside developing internal capability and capacity, directors should assess where external advisors can add value and secure them in advance.

> Providing climate leadership can be challenging, particularly when it is a new area for many. Fortunately, most leaders and practitioners do not regard it as IP and consider it beneficial to the country and market sectors as a whole – a rising tide lifts all boats.
>
> Hence, people are invariably happy to talk about their journeys and share both what worked well and less so. Plus it is always comforting to know that you are not alone on the journey, with the added advantage of not having to start from scratch.
>
> **– David Carter**

Lean into opportunities for collaboration

Approaching aspects of climate reporting collaboratively, as we have seen entities do with sector scenario analysis, creates more than just cost-sharing opportunities.

Increased perspectives lead to more robust analysis and assumptions. Involvement of a third-party convener can help build credibility, alignment across the sector, and support director confidence in scenarios developed. In addition, the Commerce Commission has developed guidance to help entities navigate collaboration around sustainability within the bounds of competition law, and acknowledges that collaboration may be necessary to face New Zealand's climate commitments.

Outside of the Standards themselves, collaboration between entities, sectors and nations will be required to build a low-emissions economy. Disclosing material risk, and strategies to mitigate and adapt to it, does have the potential to threaten value if your competitors are failing to account for the same risks. Climate reporting provides a level playing field – one where taking action on climate change drives value and therefore progress.

Beyond formal collaboration, business leaders are open to talking about their climate response and reporting experience to share knowledge and learnings. By contributing to the conversation, directors benefit personally while also improving New Zealand's collective expertise.

Ensure systems and processes are designed for the future

Advice on systems and processes

- Use the adoption provisions available to you
- Assess current systems and processes
- Understand the gap between where your systems and processes are now, and where they need to be
- Review investment into climate reporting over the long term
- Draw on collectively developed resources (e.g. sector scenarios)
- Use tools like scenario planning to shape strategic thinking

The first year (or years) of any new regime naturally requires a larger investment of time, resource and capital. While the foundation has been built for the first year, the expiry of adoption provisions in year two means there is still a big step up required. Like financial reporting, regimes also evolve and improve over time. Our financial reporting systems work effectively because of hundreds of years' worth of refinement. Climate reporting needs to evolve quickly, we don't have the time afforded to us that we have had for financial reporting refinement.

> **Take advantage of the adoption provisions – you will have too much on your plate to eat in one go.**
>
> **– John McMahon**

Designing and building the systems and processes capable of generating high-quality, verifiable, forward-looking assumptions is a complex and costly challenge. It is a task that may require more direction and involvement from directors than existing reporting does. Directors need to be asking the right questions and seeking appropriate assurances to provide the best possible information to users.

Directors certainly shared concerns around the cost required, which spanned internal investments, resources, stretched sustainability teams, upskilling and external costs. As best practice develops, reporters will be able to take advantage of templates and exemplars (that simply don't exist currently) that will support them to move beyond a 'compliance first' mindset. They will also be able to do preparatory work that will ease the amount that needs to be achieved in year one – a key learning for those facing down the next year of reporting with limited adoption provisions.

Systems and processes don't need to be costly.

Here's how one CRE handled the verification challenge using everyday office systems:

"

We created a verification spreadsheet in SharePoint listing every forward-looking assumption and statement in our report.

There were columns to track who verified each statement as true, through which process or source, along with comments. The reporting team led the process and would review, mark as compliant or request more work or details.

It allowed us to very clearly see what had been verified and what hadn't, but it was more than a compliance tool. It enabled ongoing collaboration and exploration. We went through line by line and put in comments. We debated ideas, statements, even individual words.

It allowed us to collaborate and have a single, central source of truth. Nothing was deleted, comments were updated, resolved and closed. Everything is still there. Permissions were set and as directors we could review and comment – but not edit. That document now forms a key artefact. It is evidence of our due diligence.

Use the final report as an opportunity to tell your story

Despite the large amount of work that went into year one reporting, the published reports have failed to engage or excite the market. Some consider this the result of greenhushing due to nervousness in the first year of reporting, while others feel there was more focus on ticking the requirements of the Standards than on developing the narrative around the organisation's climate response that some investors were seeking.

> **There has been a huge amount of effort but not much value has come out of the reporting... and there have been no comments. Zero. No feedback from anyone — shareholders, regulators, other interested parties. That's quite demoralising for people who have put a whole lot of effort into this.**
>
> **– Alan Isaac**

It is important that entities don't use the requirements in the Standards as a check-box exercise and some felt this is where climate statements, to date, have fallen amiss; for disclosure to be targeted and meaningful to readers, the principles that make information and presentation useful are critical.

Climate reporting should be a summary of what the entity has done over the period and what it is planning to do. In other words, it simply describes the climate journey: where you currently are and what is coming next. It seems simple, but we know that the articulation of this journey will require robust governance debates. It is also worth noting that readers of climate reports will be new to this regime and content, so views and feedback may develop over time.

Entities are asked to articulate how forward-looking assumptions impact strategy and long-term value. While legal advice is important, the ultimate decision about what is important and makes it into the published document rests with the board. As well as ensuring statements are verifiably true, it is the director's role to make sure they are culturally, fiscally and strategically sound. They must be in step with the values of the entity and in the best interests of stakeholders.

The challenge is doing this while ensuring that everything said is demonstrably true. Although the first-year experience has been to prioritise compliance, the hope is that as entities become more comfortable with the requirements and more confident in their internal processes, they can focus on how they communicate and drive their climate progress in disclosures to come.

Practical tips for boosting readability

- Ensure the reporting is connected to the organisation's business model and strategy
- Keep focused on the principles of reporting set out in the Standards
- Articulate messages concisely and clearly – the aim is clarity
- Present information so it can be easily understood by the intended audience
- Avoid creating false precision in the mind of the reader
- Reduce size by seeing what parts can be brought into or cross-referenced from your annual report
- Move less relevant sections (like introducing your board) to the back

Year two: more to learn

Directors should become familiar with the step up required in year two of climate disclosures – advice around starting early and fully understanding the requirements is just as applicable as adoption provisions expire.

The capability uplift, design of systems and processes, and other work done so far will undoubtedly support the second year of reporting. However, some important exemption provisions may no longer apply:

- Transition plan aspects of the entity's strategy, including how the business model and strategy might change and the extent to which this is aligned with capital deployment and funding decision-making processes
- Current and anticipated financial impacts
- Scope 3 greenhouse gas emissions.

This will require further time, resources, and investment but – as with year one – those who are prepared and take the time to build shared understanding early on will find this less strenuous and more valuable.

03

Opportunities to move past compliance

The intended benefits of climate reporting can be generated if it is seen as more than a compliance exercise.

The work required to produce information to be reported in accordance with the Standards can be a strategic planning tool that entities can use to get clear about how they will thrive in a climate-changed world. By creating, testing and strategically analysing ‘glide paths’, organisations can identify the ways climate change can, will, and, already is impacting business models. From there, entities can explore strategies and actions that will enable them to pivot as necessary to create long-term value and resilience.

Glide path

A ***glide path*** traditionally referred to the final path followed by an aircraft as it is landing but is also used to describe the course or direction an organisation has mapped out, and the time frame to achieve the destination.

Increased collaboration between entities will improve the outcomes. The transition to a low-emissions economy in the face of climate disruption is not a challenge that can be solved by entities in isolation. Working together will allow the development of more robust solutions more quickly, for the benefit of everyone.

As directors and entities become more comfortable with the requirements, hone their internal systems and processes, and build confidence across the areas of the challenge, we will see more valuable climate reports. We will likely even see climate-related risks and opportunities identified in these reports manifesting in the years to come and see how organisations have prepared themselves to respond, adapt and thrive.

What comes next is both difficult and important. It is vital that the systems and processes set in place ensure the next steps are focussed on areas of strategic importance to the business.

Boards can lead this by setting a clear strategic direction for meaningful change.

“

It was an investment, totally. You go through an education process. Why are we doing this? What is the benefit to our organisation, to our people and their families, to our providers?

There are connections there and you need to draw them. We got that in those plenary sessions. Being typical Kiwis we started to launch straight to the solutions — but the process gave us more discipline.

It’s an agenda item for us every board meeting. We have only just started but we have some bloody good ideas.

– Paul Bell

Eager to learn more?

For more information on climate governance, reporting or other topics, feel free to get in touch with our team or use the materials provided.

Chapter Zero New Zealand
The Directors' Climate Forum

Chapter Zero

Board Toolkit

Board Structure and Capability for Climate

Climate Scenario Analysis

What difference can directors make?

Transition planning - a guide for directors

Primer on Climate Change: Directors' Duties and Disclosure Obligations (Climate Governance Initiative)

KPMG New Zealand

Impressions of the first Aotearoa New Zealand Climate Statements

Climate-related Disclosures: where to start?

Greenwashing, greenhushing and greenwishing (KPMG US)

Appendix

Directors of organisations that are on track to face future mandatory reporting and those interested in voluntary reporting can benefit from the lessons shared in this guidance. They also enjoy the benefit of learning from others who have undertaken the challenge before them.

The advantage of hindsight and time allows directors to set the right foundations in place to make their climate reporting journey as valuable and streamlined as possible.

Best foot forward

Determine your interest and appetite:

- Decide your collective appetite for action on climate – what is your intent behind reporting?
- Define value and your value proposition – what is your strategy?
- Consider your current position, governance and capability to act on climate in the board – do you have the right expertise and skills for this challenge?

Choose your reporting framework:

- There are multiple frameworks to choose from, but you will likely start with your greenhouse gas (GHG) emissions inventory – which framework makes most sense for your business and your stakeholders?
- Consider how this fits into your strategy and ambitions – what do you need to be reporting on in the future?

Turn your appetite and framework into action:

- Start with your 'no regrets' actions that you can undertake immediately, such as establishing a mandate for change and starting your GHG emissions reporting – what can you get started on now?
- Consider where you can start embedding climate into existing governance, processes and systems – who needs to be informed and involved?
- Plan how you'll track progress and measure success – what metrics and targets can you put in place?

No regrets

No regrets actions are actions that err on the side of caution, are sound from an economic and environmental standpoint, are planned well in advance and do not involve hard trade-offs with other strategic objectives. For example, realising capital from divesting sunset businesses or activities, to invest in lower carbon or more climate resilient operations and activities.

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Chapter Zero New Zealand is the national chapter of the Climate Governance Initiative, proudly hosted in Aotearoa New Zealand by the Institute of Directors. It is part of a global network of directors committed to taking action on climate change by enhancing their knowledge and skills in climate governance.

The mission of Chapter Zero New Zealand is to mobilise, connect, educate and equip directors and boards to make climate-smart governance decisions, thereby creating long term value for both shareholders and stakeholders.