FINANCIAL SERVICES FEDERATION

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Ministry for the Environment
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Consultation on Climate-Related Financial Disclosures

The Financial Services Federation ("FSF") is grateful to the Ministry for the opportunity to provide this submission on the issues raised in the Discussion Document: Climate-Related Financial Disclosures: Understanding your Business Risks and Opportunities Related to Climate Change.

By way of background, the FSF is the industry body representing the responsible and ethical finance, leasing and credit-related insurance providers of New Zealand. We have sixty members and affiliates providing these products to more nearly 1.5 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society and business is attached as Appendix B.

Before providing answers to the questions raised in the Discussion Document, the FSF would like to congratulate the Ministry for the Environment and the Ministry of Business, Innovation and Employment and all of the officials for the foresight and the steps being taken to address the material risk climate change poses to financial stability. Having a greater wealth of information will help ensure better decisions are made surrounding risk and investments within financial markets. The FSF would also like to offer its support for the questioning nature of the Document, which displays recognition of the significance of the voice of the industry body which can aid in raising concerns or providing suggestions that ultimately allow for the implementation of a more effective and efficient regime.

In response to the four key questions for feedback contained in the Discussion Document, the FSF has the following to say:

1. What are the arguments for retaining the status quo, versus introducing new mandatory disclosures?

The FSF firstly poses the question of whether officials have researched what outcomes have been achieved in other jurisdictions where making these climate related financial disclosures is currently required? Whilst supportive of the intent of the disclosures, the FSF would be concerned that they became just an extra requirement that furthers no purpose and therefore end up being additional reporting for reporting's sake.

Currently it would appear that there is already a degree of pressure and expectation that banks, licensed insurers, listed issuers, and companies disclose useful climate-related information. This is for a range of reasons including NZX Main Market/Debt Market Listing Rules, pressure from institutional investors, banks and insurers, all of whom want to better manage the financial risk they believe climate change presents, and also pressure by the Reserve Bank of New Zealand.

It cannot be ignored that the prospect of voluntarily disclosing information that would indicate a competitive disadvantage as against an entity who is not making disclosures, would be enough to deter a great number of entities. Provided that there is further clarification surrounding what is to be disclosed and to whom the regime shall apply, the FSF, as a responsible membership body concerned with best practice, supports the extension of a clear mandatory regime that allows for a level playing field between parties.

2. What should be disclosed?

Consistent with the approach taken in other jurisdictions, applying the recommendations of the TCFD appears to be the mechanism of best practice which would allow for consistency and comparability of the information disclosed by New Zealand businesses. The TCFD framework contains a number of questions that organisations are required to reflect and disclose upon. These questions immediately appear relevant to the operations of the organisation itself.

However, FSF seeks further clarity surrounding what information would be required to be disclosed, and whether this may extend to include, in the case of an entity in the business of lending, the climate related risks of what may be being purchased by consumers with the finance they are being provided?

3. Which entities should be disclosing?

The Discussion Document, in line with the TCFD recommendations, proposes that the climate-related financial disclosure regime would require listed issuers, banks, licensed insurers, asset owners and asset managers to make disclosures. While it may be easy to determine when an entity is a bank or a licensed insurer, determining whether entities such as credit-related insurance providers, Non-Bank Deposit Takers (NBDTs) or Non-Deposit-Taking Lending Institutions (NDLIs or finance companies) fall within the scope of such a regime is currently very unclear. The FSF submits that more specified clarity on the scope of the regime is required.

The FSF is concerned about any further imposition of disclosure requirements upon smaller entities. Many of our membership organisations are of a significantly smaller size than some of the entities identified by the TCFD. It currently appears to be an open question as to whether smaller financial entities such as an NBDT or a small finance company would be subject to the requirements of such a regime. As even the largest New Zealand NBDT is significantly smaller than the smallest New Zealand bank, the FSF submits that an exemption carving these smaller entities out of the scope of the regime is entirely appropriate.

FSF supports the notion put forward in the Discussion Document that the benefits of making climate-related disclosures may be outweighed by the costs in the instances of the small entities that may fall within the listed categories. As the regime is intended to drive a change in investment patterns, these smaller entities would be in a position to contribute very little to such change, meanwhile they would be subject to a great burden were they to be tasked with the expensive job of obtaining the necessary climate-related information to disclose.

In the context of NBDTs, were a climate-related financial disclosures exemption imposed, FSF suggests that it should align with the existing credit rating exemption that currently applies to these entities. As per section 23 of the Non-bank Deposit Takers Act 2013, all licensed NBDTs are to have a current rating of its creditworthiness, however an exception applies if an NBDT can satisfy the requirements of the Non-bank Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2016.

Clause 7(3) of the Exemption Notice sets out that an NBDT is exempted from section 23 of the Act where, among other things, their annual average consolidated liabilities of the borrowing group are less than $40 million. The exemption for NBDTs was granted in line with section 70 of the Act, as the Reserve Bank of New Zealand was satisfied that compliance with the relevant provision would involve additional direct and indirect costs in obtaining a credit rating that are unduly onerous or burdensome when compared with the balance sheet size and average profitability of the exempted NBDTs. Furthermore, the Reserve Bank was satisfied that the liabilities of exempt entities represent a very small percentage of the total liabilities of the NBDT sector.

In the context of listed insurers, were a climate-related financial disclosures regime introduced, FSF suggests an exemption should be implemented for insurers with a Gross Written Premium of below $100 million. The majority of New Zealand's insurance market well exceeds this threshold, therefore there is reassurance that the exemption is applied to the entities who lack the reporting infrastructure, while ensuring that the larger entities, often those which have a heavy international presence, and are the ones who would benefit the most from the regime, and have the resources to implement it, fall within the scheme's scope.

4. When should they start disclosing?

The FSF believes that the suggested timeframe in the Discussion Document for entities to commence disclosure seems to be appropriate.   That is that the requirements would be imposed for the financial years commencing six months after the date the regulations are introduced. The FSF also notes that the Discussion Document allows some leeway for companies that did not feel they could disclose fully against the TCFD framework at that time due to insufficiently clear dates, to include a statement to this effect in their annual report with the proviso that the are expected to report fully in the following year's annual report. The FSF also believes that this is the right approach to the introduction of a new regime.

Thank you again for the opportunity for FSF to comment on this matter. Please do not hesitate to contact me again if there is anything further you wish to discuss.

Lyn McMorran
EXECUTIVE DIRECTOR

FSF Membership List as at 1 November 2019
Appendix A

Debenture Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Finance Company Diversified Lenders	Insurance	Affiliate Members
Rated Asset Finance (B) Non-Rated Mutual Credit Finance Gold Band Finance ➢ Loan Co	AA Finance Limited BMW Financial Services ➢ Mini ➢ Alphera Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➢ Mitsubishi Motors Financial Services ➢ Skyline Car Finance Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance Leasing Providers Custom Fleet Fleet Partners NZ Ltd ORIX NZ SG Fleet Lease Plan	L & F Ltd ➢ Speirs Finance ➢ YooGo Avanti Finance ➢ Branded Financial Caterpillar Financial Services NZ Ltd CentraCorp Finance 2000 Finance Now ➢ The Warehouse Financial Services FlexiGroup Future Finance Geneva Finance Home Direct Instant Finance ➢ Fair City ➢ My Finance John Deere Financial Latitude Financial Pioneer Finance South Pacific Loans Thorn Group Financial Services Ltd Turners Automotive Group	Prospa NZ Ltd Personal Loan Corporation Metro Finance Pepper NZ Limited Credit Reporting Equifax (prev Veda) Centrix Debt Collection Agencies Baycorp (NZ) Illion (prev Dun & Bradstreet (NZ) Limited Experian Intercoll Receivables Management	Autosure Protecta Insurance Provident Insurance Corporation Ltd Southsure Assurance	Buddle Findlay Chapman Tripp EY KPMG PWC Simpson Western FinTech NZ HPD Software Ltd Happy Prime Consultancy Limited Total : 60 members

FINANCIAL SERVICES FEDERATION

The Financial Services Federation (FSF) is the association for responsible finance and leasing companies operating in New Zealand. This infographic is a snapshot of our 61 members, the membership list can be found at our website: www.fsf.org.nz

Consumer Lending	Business Lending
$6 billion Total Assets	**$4.9 billion** Total Assets
1.3 million Customers	**88,739** Businesses

88,793
Businesses helped to achieve their goals

2,533 jobs
provided by FSF member companies

99.6%
Loans paid-off without requiring assistance of a hardship process

FSF lending members data survey period as at 31 July 2019 . Data collected and aggregated by KPMG