

Wise Response Society Inc Submission to the Consultative Document Climate-Related Financial Disclosures

Summary

Wise Response Society is in general agreement with the proposed recommendations, subject to certain provisos. However our major concern is that it is limited in scope and some matters that need to be adopted by the Government about the responsibility of Directors that were addressed in our Submission on the Conduct of Financial Institutions are not included.

Four Questions

This document asks four key questions:

- 1) What are the arguments for retaining the status quo, versus introducing new mandatory disclosures?
- 2) What should be disclosed?
- 3) Which entities should be disclosing?
- 4) When should they start disclosing?

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

Wise Response Society (WR) finds no convincing arguments for retaining the status quo. In our earlier Submission on the Conduct of Financial Institutions¹ we stated:

We submit that the major omission of the Options Paper is a lack of any responsibility for the social and environmental impact of investments, and in particular, the impact on our environment. An outcome where investments destroy our environment, cannot be a good outcome, and is not in the interests of customers. It is not conceivable to say that the financial sector is caring for its customers when the natural resources by which customers are dependent for life are being destroyed, by the investments of those financial institutions.

2) What should be disclosed?

a)

The Climate-Related Financial Disclosures (C-RFD) document recommended that The Task Force on Climate-related Financial Disclosures (TCFD) be adopted. This international Task Force (TCFD) was created to try and find a common framework and reporting standards that could incorporate

¹ http://wiseresponse.org.nz/wp-content/uploads/2019/06/Wise_Response_Submission_on_Conduction_of_Financial_Institutions_2019.pdf



the major factors present in the many frameworks, that often cause confusion for investors. Hence there would be one widely accepted process and standards to be followed.

WR is in agreement with this, with the following proviso: any framework and standards be subject to the process of validation.

Validity is where a measure or standard actually measures what it is intended to measure. There are two steps to establish whether this is the case: content and construct validity. To be a valid measure, both tests need to be passed.

Content validity requires consideration at a conceptual level: does the measure make sense? Example: if a measure of health was defined simply as absence of injury, it would not be valid because health is understood to include other forms of ill health such as illness. Construct validity requires empirical considerations: is the application of the measure consistent with other empirical evidence? If the measure of health when applied showed that everyone was in ill health, this would count as empirical evidence against the validity of the measure because everyone is not ill.

The process of validation is widely accepted in the social sciences, but the majority of bankers, fund managers, economists, do not know about this and this has significantly contributed to the large number of invalid measures.

b)

This document (C-RFD) is focussed on climate. But the IPCC Report on Climate Change and Land² stated that global heating is increasing droughts, soil erosion and wildfires while diminishing crop yields in the tropics and thawing permafrost near the poles. Continued destruction of forests and huge emissions from cattle and other intensive farming practices will intensify the climate crisis, making the impacts on land still worse. Almost three-quarters of ice-free land is now directly affected by human activity. Poor land use is also behind almost a quarter of the planet's greenhouse gas emissions – the destruction of forests, huge cattle herds and overuse of chemical fertilisers being key factors.

One of the most stark conclusions in the IPCC report is that soil, upon which humanity is entirely dependent, is being lost more than 100 times faster than it is being formed in ploughed areas; and lost 10 to 20 times faster even on fields that are not tilled.

Will water quantity and quality, soil loss, deforestation, species loss, atmospheric and water-borne toxins and toxic substances be included in the risk analysis, because they potentially are just as important as a warming climate?

² <https://www.ipcc.ch/report/srccl/>



In our earlier document Submission on the Conduct of Financial Institutions we submitted that the duties of directors should include:

- A duty to act in a socially and environmentally responsible way,
- A duty to ensure the likely consequences of any decision in the long term are sustainable,
- A duty to consider the wellbeing of the company's employees,
- A duty to consider the need to foster the company's business relationships with suppliers, customers, and other stakeholders,
- A duty to consider the impact of the company's operations on the community and the environment,
- A duty to take into account best practice, validated standards of socially and environmentally responsible behaviour, and the science of impacts (and in particular the science of impacts on the environment through such measures as ecological footprints),
- A duty to annually assess and report on risks facing the company,
- A duty to develop a statement of purpose which takes all of the above into account, and is then developed into codes of conduct, policies and strategies and budgets,
- A duty to publish, at least annually, the statement of purpose, codes of conduct, policies, strategies, risk analysis, and budgets about the above duties, and actions taken to remedy (including engagement with companies where investments have been made), any deficiencies where interests and impact has not met best practice, validated standards of socially and environmentally responsible behaviour, and the relevant science.

The danger of the current proposals of the C-RFD document is that a narrow understanding and interpretation of the climate crisis related to emissions will be used, and that the Parliament will tick off that box as being done without necessarily realising that only a small task in tackling environmental degradation and making companies responsible for their environmental (and social) impact, has been achieved.

WR submits that any changes for Climate-Related Financial Disclosure be defined so that the widest possible scope be made for assessing impacts.

3) Which entities should be disclosing?

The C-RFD document envisages that this applies to : listed issuers, banks, general insurers, asset owners and asset managers.

WR recommends that all subsidiaries and significant contractors of these entities be included.

WR recommends that also included are Government (both national and local) departments and agencies, SOEs, and medium to large NGOs.



WR notes that the ACC has around \$44 billion under investment. The ACC has its own ethical investment policy that excludes tobacco, anti-personnel mines, nuclear explosive devices, cluster munitions, whale meat processing, cannabis, North Korean munitions, mercenary activities and unacceptable corporate behaviour. This is very selective and restricted criteria, and does not include major ethical violations based on human rights and environmental damage. It does not exclude fossil fuel investments.

When should they start disclosing?

The C-RFD document states: Not complying with the TCFD in full would be permissible, in year 1 only, subject to explaining why some disclosures have not been made, eg, because targets and metrics are still being developed. Thereafter, non-disclosure would only be allowable on the basis of a preparer's analysed and reported conclusion that they see themselves as not being materially affected by climate change, with an explanation as to why.

WR sees no significant reason to disagree.

Thankyou for the opportunity to submit. If hearings are arranged, we would like to be heard on this submission. I wish to acknowledge the leading role taken by Dr Robert Howell of the Society in assembling this submission and inviting contributions from members.

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