



Reserve Bank
of New Zealand
Te Pūtea Matua

Managing climate-related risks: guidance for prudentially regulated entities.

Response to submissions

26 March 2024

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Background

A key part of our mandate is to protect and promote the stability of New Zealand's financial system (the financial stability objective). This objective is framed within the purpose of the Reserve Bank of New Zealand Act 2021, which is to 'promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy'.

Assessing prudentially regulated entities' (entities') material risks, and the financial system as an ecosystem, is at the core of meeting our financial stability objective. Financial stability means having a resilient financial system that can withstand severe but plausible shocks and provide the financial services that we all rely on. This ensures everyone in Aotearoa can safely save their money, make everyday transactions, access credit to consume and invest, and insure against risks.¹ To meet our financial stability objective, it is therefore important for us to take account of the current and future impacts of climate change.

One such way to do this is by developing guidance, which seeks to support entities in improving how they manage climate-related risks. In doing so we aim to help develop a shared understanding of what is recommended and promote better practice management of climate-related risks.

In March 2023, we published the *Managing climate-related risks: draft guidance for regulated entities* consultation paper² alongside our first draft of the guidance (Guidance).³ The consultation sought stakeholder feedback on our approach to, and content of, the Guidance. The consultation paper addressed issues such as:

- How we developed the Guidance;
- Other options considered to issuing guidance;
- Relationship with the Aotearoa New Zealand Climate Standards (NZ CS); and
- Compliance costs of proposals.

Consultation process

The consultation opened on 29 March 2023, and closed on 7 June 2023. It sought stakeholder feedback on all of the Guidance, including by asking some specific questions.

The Reserve Bank received 16 submissions regarding the Guidance, comprising of:

- five from industry bodies on behalf of their members;
- three from entities;
- six from other relevant industry stakeholders; and
- two from members of the public.

¹ Financial Stability Report. (2023). [rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/nov-2023/fsr-nov-23.pdf](https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/financial-stability-reports/2023/nov-2023/fsr-nov-23.pdf)

² Managing climate-related risks: Consultation paper on guidance for regulated entities. (2023). [rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/managing-climate-related-risks/consultation-paper-for-managing-climate-related-risk.pdf](https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/managing-climate-related-risks/consultation-paper-for-managing-climate-related-risk.pdf)

³ Managing climate-related risks: Guidance for regulated entities. (2023). [rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/managing-climate-related-risks/guidance-managing-climate-related-risk.pdf](https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/managing-climate-related-risks/guidance-managing-climate-related-risk.pdf)

These submissions can be found on our website.⁴ We are grateful to the submitters for taking the time to provide a response to the Guidance, which has provided some valuable insights and feedback that we have taken time to carefully work through.

This document provides readers with a summary of the submissions we received, as well as highlighting where we have incorporated the suggestions and otherwise outlining why we have not done so. This document is not intended to be an exhaustive summary and response to all points raised; we focus on the common themes and views raised in the submissions.

We have considered this feedback in developing the revised version of the Guidance, which we published on 26 March 2024.⁵

Summary of submissions

In the consultation paper, we asked for feedback on six questions across four key issues. In the below sections we have broken down the summary of submissions and our response to those by issue, before a final section on other notable comments from respondents.

How we developed the Guidance

Many respondents noted the Guidance was helpful. However, several suggested that the Guidance does not add much value for climate reporting entities (CREs) given the work they are already undertaking to meet the NZ CS.⁶ In order to enhance value, it was suggested we should consider more examples, case studies and links to what we view as global best practice. These comments were often in relation to scenario analysis, but also to governance and transition plans, among other areas.

Many respondents provided some helpful technical tweaks and additions regarding specific content. Some proposed amendments were more substantive, for instance developing a dedicated 'Metrics and targets' section regarding forward-looking climate metrics and quantitative data.

Reserve Bank response

In addition to the stakeholder feedback, we recognise the publication of various guidance documents by the External Reporting Board (XRB) and the Financial Markets Authority (FMA) regarding NZ CS since we published our draft Guidance in March 2023. Our Guidance aims to provide specifically targeted information that we believe to be of relevance to entities regarding how they manage climate-related risks, given the additional perspective we bring as a prudential regulator and supervisor.

In order to best serve this purpose and provide the most value for all entities, we have therefore changed the structure of the Guidance so that the sections match those of NZ CS 1; governance, strategy, risk management and metrics and targets.⁷ To support this, we have produced more examples, reduced duplications and instead added more links to other supporting documents

⁴ Guidance on managing climate-related risks - individual consultation submissions. (2024). <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/consultations/managing-climate-related-risks/guidance-on-managing-climate-related-risks-individual-consultation-submissions-redacted.pdf>

⁵ Managing climate-related risks: guidance for prudentially regulated entities. (2024). <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/climate/guidance-managing-climate-related-risks.pdf>

⁶ Aotearoa New Zealand Climate Standards» XRB. www.xrb.govt.nz [xrb.govt.nz/standards/climate-related-disclosures/aotearoa-new-zealand-climate-standards/](https://www.xrb.govt.nz/standards/climate-related-disclosures/aotearoa-new-zealand-climate-standards/)

⁷ Aotearoa New Zealand Climate Standard 1 Climate-related Disclosures (NZ CS 1). (2022). [xrb.govt.nz/dmsdocument/4770](https://www.xrb.govt.nz/dmsdocument/4770)

where relevant (both domestic and international) and drawn more links to existing parts of the prudential regime.

We have also addressed the various tweaks and additions to specific content that were suggested, where appropriate.

As set out in the Guidance, we will update it as appropriate to reflect the evolving nature and maturity of risk management practices, and also in light of our experience with drawing on it and other sources in our supervision of climate-related risks. The content of the Guidance and our approach to supervising climate-related risks will also evolve and mature, among other things because of legislative changes such as the Deposit Takers Act 2023 (DTA) and any revisions to the Insurance (Prudential Supervision) Act 2010 (IPSA).

Other options considered to issuing guidance

There was widespread support for guidance rather than the alternative options (maintaining the 'status quo' or imposing requirements). Some respondents noted the potential for requirements in the future, and they would welcome further consultation and time to implement in the event we follow such a route. There was one concern that our guidance is viewed as a de facto requirement by entities given it sets out our expectations. A small number of respondents also asked about implementation timelines.

Reserve Bank response

We have proceeded with issuing guidance as the preferred way forward. This means it is intended to inform and does not impose any enforceable requirements – it is voluntary for each entity to apply and non-binding.

The Guidance does not have an effective date by which time an entity should implement its contents. Instead, when an entity considers how the Guidance best fits its business model and strategy, we recommend it prioritises the considerations and recommendations to the extent they are relevant and material for the entity.

In the event we decide to develop climate-specific standards in the future, that process would be subject to the same consultation and implementation procedures as our other standards.

Relationship with NZ CS

The vast majority of respondents noted they could not foresee any conflicts, though given it is a fast-evolving area we should regularly review the guidance to ensure none arises. A couple of stakeholders provided some very helpful specific points regarding conflicts for us to address (namely on scenario analysis), while a few respondents commented that we should enhance the alignment of our scenario analysis section with NZ CS.

Several respondents requested that we make it very clear that NZ CS takes priority for CREs, particularly if any conflicts arise, and also whether meeting NZ CS also meets the Reserve Bank's expectations.

Reserve Bank response

We have addressed the conflicts that were highlighted to us, and again sought feedback from the XRB and FMA on the latest iteration of the Guidance prior to publication. We will continue to work

alongside both organisations to minimise any conflicts. For example, we have reduced the length of the scenario analysis text in the Guidance and instead refer to other documents including XRB guidance in order to better align with NZ CS.

We have further clarified in the latest Guidance that NZ CS takes precedence over the Guidance for CREs. We note, given the nature of disclosure requirements and the Guidance's prudential focus, it is possible for an entity to be fully compliant with NZ CS and not fully apply the Guidance (and vice versa).

Compliance costs of proposals

Consensus was that compliance costs would be limited for CREs given the work they are already undertaking to meet NZ CS, but there would be significant costs for non-CREs to fulfil our expectations.

Several respondents explicitly focused on the application of the guidance for smaller entities, particularly non-CREs, with differing views. Some suggested we should reflect on a minimum size of entity the guidance is expected to apply to, a phase-in period for expectations to be met (which is longer for non-CREs), and/or carve-outs in expectations for smaller entities. We were also asked to clarify the application of the Guidance for branches of overseas entities operating in New Zealand and financial market infrastructures (FMIs). However, other respondents suggested the Reserve Bank should not introduce any exclusions or relief provisions for smaller entities.

There were widespread views that the expected benefits of the Guidance outweigh the costs overall (despite the varying views on the application for smaller entities).

Reserve Bank response

We maintain that the Guidance applies to all prudentially regulated entities, but emphasise the need for proportionality. We reiterate in the latest Guidance that entities vary significantly in size, business mix and complexity, and also in the extent to which they are, or may in future be, exposed to climate-related risks. We note that smaller entities are not necessarily less exposed to climate-related risks, because they may have concentrated business lines or geographical exposures that are highly exposed to climate-related risks without the risk-mitigating benefit of diversification available to larger entities.

Accordingly, we recommend that entities consider how the Guidance best fits their business model and strategy. Not all of the practices in the Guidance will be relevant for every entity.

In approaching it in this manner, the costs of applying the Guidance should reflect the extent to which an entity is exposed to climate-related risks, and should be outweighed in any case by the benefits of subsequently managing those risks appropriately.

Other notable comments

One respondent recommended the guidance includes a focus on the climate-related risks to banks' customers and that we prioritise work on financial inclusion in conjunction with developing guidance for climate-related risks.

Reserve Bank response

The extent to which entities' actions to manage climate-related risks have an impact on customers, for example engaging with them on transition plans, employing mitigating options like risk-based pricing or withdrawing provision and ensuring operational continuity in the event of a severe weather event, is captured within the latest version of the Guidance.

That being said, we recognise that climate change has the potential to present considerable challenges to financial inclusion, which we must remain cognisant of and mitigate where it is feasible and appropriate for us to do so. Some of those particular challenges are discussed in more detail within *Our Approach to Financial Inclusion* (Our Approach) that we published in September 2023.⁸ Our Approach also emphasises that we will conduct further work to increase understanding of the interlinkages between climate change and financial inclusion, which we will undertake alongside other members of the Council of Financial Regulators.

⁸ Financial Inclusion. Our approach at the Reserve Bank of New Zealand – Te Pūtea Matua. (2023). [rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/our-approach-to-financial-inclusion/our-approach-to-financial-inclusion.pdf](https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/our-approach-to-financial-inclusion/our-approach-to-financial-inclusion.pdf)