CRD Discussion Paper:

Exploring insights from the FMA review

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Climate Disclosures:
Insights from the FMA review[1]

First year of disclosures highlight opportunities for better risk management and demonstrating climate-readiness.

Year one of the climate disclosure regime highlighted high costs and restrictive liability settings - recalibration is underway.

What happened?

- Many disclosures were generic, overloaded with immaterial items, and light on severity/exposure, time horizons, and entity-specific context. Scenario analysis often relied on averages, masking the range of potential outcomes.
- Focus needs to shift to the effectiveness of identifying CCROs, not just listing them. Robust identification should underpin materiality, strategy and targets. It's all about disclosure, not actions.
- The regime is not yet achieving its purpose (capital reallocation), with the lack of entity-level materiality and clean link to capital deployment. That dampens usefulness for pricing risk. FMA is now explicitly moving towards these choke-points (materiality, transition plan aspects and assurance).
- CCRO identification needs to become a discipline, not a workshop, backed with data, clearly focused on material risks. Effective scenario analysis will identify ranges and plausible extremes, not averages.

It doesn't take a lot more to do a lot better....

The FMA findings demonstrate a missed opportunity to strengthen the resilience of businesses by embedding strong climate risk identification and management processes.

In our view, one of the big misconceptions is that a good quality disclosure needs to be expensive. Here are some suggestions to consider when planning or updating climate disclosures:

Set up for success: Long-standing, proven methodologies exist for identifying and assessing climate risk. These are flexible enough to be integrated into existing organisational risk management processes. A good methodology is simple and contains links to wider risk management processes.

Good data is out there, and it's not in a black box: Quality, local, climate and hazard data is critical for understanding physical hazards (and New Zealand has some high quality, good resolution, public resources in this space).

'Climate change' includes 'climate': When thinking about climate risks, a good starting point is to what extent the company has been impacted by recent weather events (for physical risk) or policy and market changes (for transition risk).

Use in-house knowledge: Climate risk doesn't need to be complex. It is likely that many of the risks are known to your staff already. These just need to be framed against relevant policy context, sound hazard data and good use of scenarios.

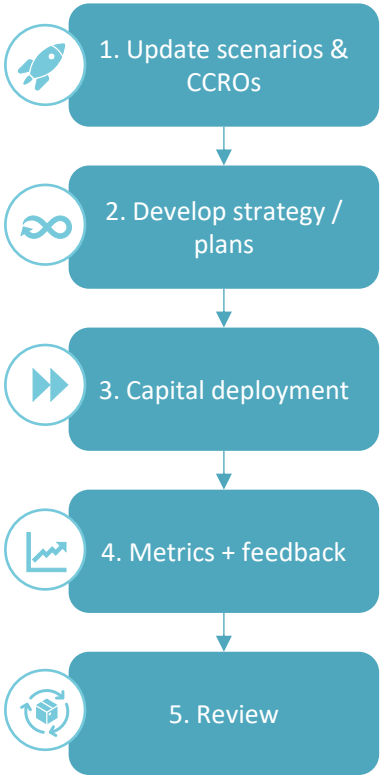
Do it once, and do it right: If set up well, once the risk assessment process is established for an organisation, the process can be repeated to track how risks are changing over time.

[1] Climate-related Disclosures: Discussion paper: exploring insights from our reviews 2025

How can climate reporting entities respond?

With experience and familiarity growing, CREs are in a position to carefully choose what information and expertise adds the right value to the growing amount of in-house expertise. We make the following suggestions for priority next steps:

- **Materiality –** Run a **CRRO refresh** focused on specificity, clear time horizons, and drivers; cut immaterial lists. Consider running a CRRO Identification Sprint (designed to deliver entity-specific, auditor-ready evidence pack and record keeping).
- **Risk Assessment –** Embed and internalise a credible methodology that's linked to internal risk management frameworks, is repeatable and auditable.
- **Scenarios –** Upgrade scenarios focussing on level of distinctiveness, plausibility and challenge. Run strategy stress-test sessions to confirm no-regrets moves and identify conditional options with clear triggers.
- **Transition Plan Alignment –** Provide clear links to investment gates and funding plans. Top 5 risks/opportunities → investment responses → KPIs.
- **Anticipated Financial Impacts** – Focus on pragmatic assessment of AFIs, clearly capturing rationale where impacts cannot be quantified.
- **Audit –** Stand up an **NZ SAE 1** plan (scope, independence, timing); with clean cross-references.
- **Physical Hazard + Asset Intelligence** – Use most relevant, up to date NZ hazard datasets to understand exposure and risk.
- **Internal process –** Move recurring effort from external to internal drafting; use external specialists strategically to leverage internal technical expertise (per FMA third-party guidance).



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