

Submission to:

Reserve Bank of New Zealand | Te Pūtea Matua

On document:

**Managing climate- related risks: Guidance for
regulated entities**

Response to the RBNZ consultation paper “*Managing climate-related risks: Guidance for regulated entities*”

The role of the Reserve Bank is to act as kaitiaki of the financial system, guarding the prudential soundness of New Zealand’s entities and the system as a whole.

The message from RBNZ is clear: climate change poses a direct challenge to financial stability.

The Centre commends this message, along with the Reserve Bank’s ongoing involvement in the Network for Greening the Financial System, and the three pillars of its 2018 climate strategy.

1. Monitoring and managing our impact on climate
2. Understanding and incorporating the impact of climate change on our core functions
3. Providing leadership as an institution

The Centre’s [February 2023 submission](#) to the RBNZ consultation paper titled ‘Risk weights: Omnibus consultation paper’ highlighted several key points:

1. Climate change is causing enormous damage from catastrophic events, which are having a destabilising impact on our economy.
2. The required steep emission cuts and adaptive responses will take unprecedented, genuine collaboration between central and local governments, the private sector, indigenous peoples, and all communities.
3. Climate-related financial risks are a priority, with broader sustainable development considerations such as iwi & Māori access to capital, nature, and biodiversity being core considerations for further consultation.
4. The financial sector faces challenges in assessing climate- and sustainability-related risks due to insufficient data coverage, along with uncertainties regarding the precise impact of climate change. Clear guidance is necessary, especially for dynamic and forward-looking predictions in the context of climate change. The Centre also emphasizes the importance of capability in effectively managing climate-related financial risks.
5. The role of the Reserve Bank is to act as kaitiaki of the financial system, guarding the prudential soundness of New Zealand’s entities and the system as a whole. RBNZ is uniquely positioned to lead and enable an orderly transition to a low emissions economy.
6. The Centre urges RBNZ to continue with its climate change leadership by consulting, engaging and providing further clarity to the financial sector on the matter of climate and sustainability factors, and the influence these have on the risk profile of lending made by the financial sector to support Aotearoa New Zealand’s transition to a low carbon economy.
7. Further dialogue and consultation is needed to understand, appreciate and address the practical barriers currently preventing the adjustment of internal risk models.

On the matter of whether issuing guidance is preferable to Options 1 or 2 outlined in the consultation paper, we refer to the submission put forth by the New Zealand Bankers Association (NZBA).

We appreciate the importance of the Guidance around RBNZ’s expectations and specifically point 7 of the NZBA submission, which emphasizes the need for this guidance to adapt and evolve over time through regular reviews. Given the evolving nature of how Climate Reporting Entities (CREs) understand and price climate risks and opportunities, we advocate for an open-minded approach to the continuous development of the Guidance.



The Centre looks forward to supporting this evolution through continued collaboration and dialogue between reporting entities and RBNZ.

About the Centre for Sustainable Finance: Toitū Tahua

The [Centre for Sustainable Finance: Toitū Tahua](#) (the Centre) is an independently governed charitable trust established in 2021 to accelerate progress toward an equitable, inclusive and sustainable financial system. In short, we are working toward a financial system which supports the New Zealand economy to operate within social and planetary boundaries.

Established by major financial institutions, Crown entities and strategic philanthropists, the Centre follows a model pursued successfully in other jurisdictions such as the UK, Canada, Europe, Australia and Singapore.

The Centre seeks to clarify the role of private capital in achieving New Zealand's commitments under the Paris Agreement, which includes "making sure that financial flows support the development of low-carbon and climate-resilient economies". Importantly, we take sustainable finance to include broader considerations of sustainable development, including iwi & Māori access to capital, nature and biodiversity, financial inclusion and equitable access to financial services.

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