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29 July 2026

External Reporting Board
Level 6
154 Featherston Street
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Dear Sir or Madam

Bank of New Zealand's response to the External Reporting Board's proposed amendments to NZ CS 1 Climate-related Disclosures.

1 Introduction

1.1 E mihi ana te Pēke o Aotearoa mō te whai wāhi ki te tuku urupare ki a Te Kāwai Ārahi Pūrongo Mōwaho mō te arotake i te proposed amendments to NZ CS 1 Climate-related Disclosures. E tautoko ana mātou i ngā whakapuakanga e pā ana ki te huringa āhuarangi, ā, e whakapono ana mātou he mea nui aua whakapuanga mō te pāinga o Aotearoa i te roanga o te wā.

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1.2 Bank of New Zealand welcomes the opportunity to provide feedback on the External Reporting Board's (XRB) consultation on proposed amendments to NZ CS1 Climate-related Disclosures. BNZ supports climate-related disclosures and believe they are important for the long-term benefit of New Zealand.

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1.3 BNZ supports the overall direction of the proposed amendments. We believe the amendments are a pragmatic step towards improving the workability of the climate reporting regime, particularly for financial institutions. We support the XRB's intention to better align New Zealand's requirements with international reporting settings, including IFRS S2, and to provide greater clarity on how scope 3 investment-related GHG emissions should be treated.

1.4 Our comments are focused on areas where we believe further clarification will improve consistency, reduce unnecessary complexity, and support high-quality reporting.

2 Alignment with IFRS S2 and clarification of paragraph 29A treatment.

2.1 BNZ supports alignment with IFRS S2 where appropriate. We believe international alignment is important for comparability, market confidence, and minimising unnecessary additional compliance costs for New Zealand reporting entities.

2.2 BNZ considers that further clarification would help ensure the proposed amendments achieve the intended alignment with IFRS S2. In particular, paragraph 29A of IFRS S2 expressly refers to certain categories of financed emissions, including assets under management and undrawn loan commitments. We note that NZ CS 1 does not currently explicitly refer to either of these sources.

2.3 We believe the amendments should make clear whether emissions attributable to assets under management and undrawn loan commitments are intended to be within the scope of NZ CS 1 disclosure requirements. BNZ submits that greater clarity will support more consistent application across climate reporting entities and reduce the risk of divergent market practice.

3 Undrawn loan commitments.

3.1 BNZ considers that express clarification on undrawn loan commitments will be particularly helpful. We note that currently there is diversity in practice among New Zealand banks regarding the reporting of emissions associated with undrawn loan commitments. We also note that, where no funding has been advanced, uncertainty can arise as to whether such exposures fall within the scope of financed emissions.

3.2 BNZ believes clarification in the standard will promote consistency and reduce the risk that entities make different judgments on similar exposures. We submit that this will support the usefulness and comparability of climate statements for primary users.

3.3 If the XRB intends that undrawn loan commitments are within scope, BNZ recommends the standard provide sufficient guidance on how those commitments should be measured, including where data, attribution, or methodology limitations exist. BNZ recommends that the XRB clarify the types of undrawn loan commitments that are intended to be captured where financed emissions are reported. We consider that the term ‘undrawn loan commitments’ may cover a broad range of lending arrangements, and believe that without further guidance, reporting entities could reach different views on whether all undrawn loan commitments, or only particular categories of commitments, should have financed emissions attributed to them. We submit that greater clarity on both the applicability and measurement of undrawn loan commitments will support the XRB’s objective of achieving an outcome aligned with IFRS S2 and assist with trans-Tasman comparability, particularly for reporting entities that operate within groups subject to Australian reporting requirements.

4 Physical risk

4.1 BNZ also encourages the XRB to clarify, or provide supporting guidance on, the type of exposure that should be used when assessing and disclosing physical risk. In particular, we believe it would be helpful for the XRB to confirm whether the exposure basis used for physical risk should align with the exposure basis used in other parts of climate reporting, including financed emissions. We believe this clarity will support more consistent application across reporting entities and reduce the risk that different exposure measures are applied across related sections of climate statements.

5 Facilitated emissions and syndicated lending.

5.1 BNZ supports broader treatment of facilitated emissions, including clarification that activities such as syndicated lending should not automatically be treated as financed emissions. We consider that syndicated lending is more appropriately framed as a transaction or facilitation activity, as opposed to emissions directly financed by the bank.

5.2 We believe the proposed wording for "facilitated emissions attributable to capital market issuance activities" is too narrow as it is unclear whether it would extend to facilitated emissions from sources other than bond issuance. For example, activities such as syndicated lending do not fit cleanly within the wording of "capital market issuance activities".

5.3 BNZ considers the final drafting should be clarified to ensure that facilitated emissions are treated consistently, regardless of the precise transaction form. We submit that if the policy intent is to exclude facilitated emissions that are not financed emissions, the drafting should not be limited in a way that captures some facilitation activities, but not others.

5.3.1 BNZ believes this clarification is important as it will better align the standard with the practical way financial institutions operate. We note it will also support the production of disclosures that are meaningful and not overstated by including emissions that are facilitated through transaction activity, but not directly financed by the reporting entity.

6 Application material and methodology limitations.

6.1 BNZ strongly supports incorporating guidance on GHG emissions exclusions as authoritative application material within NZ CS 1. However, we consider the application material should be expanded to address situations where a methodology technically exists, but the relevant emissions source is intentionally outside the scope of that methodology.

6.2 BNZ recommends clarifying paragraph B8 to address two distinct situations: first, where no applicable methodology exists; and second, where an established methodology exists but intentionally excludes the relevant emissions source from its scope. For example, some lending or financial activity types may not be covered by a prescribed methodology, such as certain personal lending products, where an applicable PCAF methodology may not be available. Separately, a methodology may exist for a broader class of financial instruments, but still exclude a particular activity from its scope. We believe this issue is particularly relevant for banks that maintain trading securities portfolios, where assets may be held for short durations, or classified as held for sale and may therefore fall outside the scope of the relevant financed emissions methodology. BNZ considers that clarity will support entities apply 24(d) consistently, avoid unnescessary bespoke methodologies, and reduce the risk of disclosures implying a level of precision that the underlying methodology cannot support.

6.3 BNZ notes that many standards, metrics, measurements, methodologies, and models used in preparing climate disclosures continue to evolve. We also note that GHG emissions data may include estimates due to the inherent uncertainty and limitations in measurement methodologies.

6.4 BNZ considers it appropriate for NZ CS 1 to retain flexibility where methodologies are immature, unavailable, or not designed to cover the relevant activity. This will help ensure that disclosures remain reliable and decision-useful, rather than requiring entities to report figures that may imply a level of precision that the methodology cannot support.

7 Effective date and early adoption.

7.1 BNZ supports the proposed mandatory date of 1 January 2027, with early adoption permitted. We believe that allowing early adoption is helpful as it enables climate reporting entities to apply the clarified requirements as soon as practicable. In particular, where doing so will improve consistency with international standards or reduce uncertainty in current reporting processes. We also consider the mandatory date of 1 January 2027 provides a defined transition point for entities that need additional time to update reporting processes, methodologies, control, and assurance planning.

8 Costs, benefits, and practical effects.

8.1 BNZ considers that the proposed amendments should reduce complexity and improve workability of climate-related disclosures for financial institutions. In particular, clearer exclusions and improved application guidance should help entities avoid unnecessary or unreliable measurement of emissions sources where methodologies do not exist, do not apply, or would create a risk of inconsistent reporting.

8.2 We also believe that improved alignment with IFRS S2 will support comparability and reduce the risk that New Zealand requirements extend beyond international requirements without a clear policy directive.

9 Conclusion

9.1 BNZ supports the overall direction of the proposed amendments to NZ CS 1. We consider amendments are a pragmatic and helpful step towards improving the workability of the climate reporting regime.

9.2 BNZ recommends the XRB:

9.2.1 Clarify the treatment of assets under management and undrawn loan commitments;

9.2.2 Clarify how undrawn loan commitments should be measured and applied;

9.2.3 Provide guidance on the exposure basis to be used for physical risk reporting;

9.2.4 Clarify the permitted exclusion for facilitated emissions, including where the policy intent is broader than capital market issuance activities:

9.2.5 Clarify that entities may exclude emissions sources that are outside the scope of an established methodology, not only sources for which no methodology exist; and

9.2.6 Retain the proposed 1 January 2027 mandatory date, with early adoption permitted.

Should the XRB have any questions in relation to this submission, please contact Paul Hay on the details below:

Yours sincerely

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