



22 November 2021

External Reporting Board  
PO Box 11250, Manners St Central,  
Wellington 6142.

Submitted online to: [climate@xrb.govt.nz](mailto:climate@xrb.govt.nz)

Attention: April Mackenzie

Dear April

### **Climate-related Disclosures Consultation Document: Governance and Risk Management**

Thank you for the opportunity to comment on the External Reporting Board's (XRB's) Climate-related Disclosures Consultation Document: Governance and Risk Management.

Congratulations on reaching this important milestone in the development of climate-related reporting standards for New Zealand.

#### **Our general comments**

We support the key decisions and design principles underlying the development of the climate-related reporting standards, in particular:

- The components of the climate disclosure framework to be made up of at least two standards, an authoritative notice and accompanying guidance;
- Te Ao Māori in relation to climate-related disclosures to be incorporated at the framework level;
- The standards and guidance to be based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations;
- The standards and guidance to be developed with a user-needs focus; and
- The XRB to be guided by the qualitative characteristics of information that is useful for decision making.

We also support the intention that the climate-related reporting standards be:

- Short and succinct, focused on high-level areas for disclosure, and be sufficiently flexible;
- Ambitious, forward-looking and future-proofed as far as possible; and
- Sector-neutral.

Many entities provide climate-related (or other sustainability) information as a result of demands from other stakeholders, such as customers, not just from their investors, and many public entities provide the information for broader accountability reasons.

In our view, the XRB's climate-related reporting standards need to be appropriate for climate-related reporting by public entities. Also, we are mindful that assurance over disclosures required by climate-related reporting standards, beyond greenhouse gas emissions, may be required of public entities in the future.

#### **Our specific comments**

We raise some issues for the XRB to consider in our responses to the Questions posed in the Consultation Document.

- In our view, some of the proposed terminology and definitions in NZ CS 1 are not sector-neutral or future-proofed. This is inconsistent with the XRB's intention for NZ CS 1, as noted above.

We recommend that the XRB reconsiders terminology, definitions and the language that is used to ensure it is sector-neutral and future-proofed. Sector-neutral definitions and terminology can be accompanied by guidance material that interprets the terminology for application in each sector.

- In our view, the application of NZ CS 1 to governance (and management) for group climate reporting needs further thought to ensure increased clarity. In the public sector, group, governance and management structures can be complicated. Subsidiaries may have governance structures, management structures, operations and risks that are significant and distinct from the parent.

We recommend that the XRB considers rewording the proposed NZ CS 1 in this area, or providing guidance to clarify how NZ CS 1 applies to the reporting of climate-related risks for group climate reporting.

- In our view, the XRB needs a strategic response to international developments, such as the recently established International Sustainability Standards Board (ISSB), which is consulting on the prototype climate disclosure standard issued by The T5 group of climate framework/standard setting institutions.

We encourage the XRB to set, and publish, a strategy on how it intends to deal with international developments, including how to influence and/or contribute to the ISSB and the work of other relevant international standard setters like the International Public Sector Accounting Standards Board and the International Auditing and Assurance Standards Board in relation to climate or sustainability reporting.

We acknowledge that the Financial Sector (Climate-related Disclosure and Other Matters) Amendment Act 2021 (Act) has a strong focus on for-profit entities that operate in financial markets and the TCFD recommendations are largely intended for for-profit entities. However, climate issues affect entities in all sectors and reporting climate information should be consistent regardless of whether an entity is a for-profit entity or a public benefit entity.

The XRB has a responsibility under the Act to set climate standards that are appropriate for both for-profit and public benefit entities. It has an opportunity to ensure that its climate-related reporting standards are ambitious, forward looking, future-proofed and sector-neutral. It also has an opportunity to encourage and promote best practice and consistent disclosure of climate information across all sectors.

Our comments to the individual Questions are attached to this letter.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at [laywee.ng@oag.parliament.nz](mailto:laywee.ng@oag.parliament.nz).

Yours sincerely



Todd Beardsworth  
Assistant Auditor-General – Audit Quality

## Questions

1. *Primary users have been identified as existing and potential investors, lenders and insurance underwriters. Do you think that all of these users should be included in the primary user category?*

We do not agree with the proposed definition of “primary users”. The definition is unduly (and unnecessarily) narrow. In our view, the definition is inconsistent with the XRB’s intention that NZ CS 1 be ambitious, forward looking, future-proofed and sector-neutral.

Although the primary users of disclosures by climate reporting entities under the Financial Sector (Climate-related Disclosure and Other Matters) Amendment Act 2021 may be existing and potential investors, lenders and insurance underwriters who make capital allocation and other decisions based on the information provided in the disclosures, we do not consider that NZ CS 1 needs to unduly limit the users of the information. We do not agree that the definition needs to be based on the TCFD’s references to “primary users” or that it needs to align with the users and language used in the NZ Conceptual Framework for for-profit entities.

The proposed definition of “primary users” has an undue focus on users of for-profit reporting entities and is not sector-neutral. It does not sufficiently identify, or include, the users of information disclosed by public entities. For example, Auckland Council, a public benefit entity, is a climate reporting entity under the Act. Its users also include rate payers, who are service recipients and resource providers.

Also, the definition is not aligned with the definitions of “primary users” set out in the NZ Conceptual Framework (for for-profit entities) and the Public Benefit Entities’ Conceptual Framework (for public benefit entities).

The proposed definition is not future-proofed. It is limited mainly to the users of certain climate reporting entities specified in the Act. We disagree with the inclusion of “insurance underwriters” which is a specific group of users of some climate reporting entities. The definition needs to be sufficiently wide to ensure that it will not need to be amended when other types of entities are required to apply the climate standards in the future. Having a narrow definition potentially limits the usefulness and applicability of the proposed standard (and has implications for the scope and other definitions in the proposed standard – see our response to Question 4).

We recommend that the XRB uses generic and inclusive terminology and language in NZ CS 1 to enable it to be sector-neutral and future proofed. Sector-neutral definitions and terminology can be accompanied by guidance material that interprets the terminology for application in each sector.

We recommend that the proposed definition be better aligned with the definitions of “primary users” set out in the NZ Conceptual Framework (for for-profit entities) and the Public Benefit Entities’ Conceptual Framework (for public benefit entities). Importantly, the definition needs to ensure that NZ CS 1 is sector-neutral.

Notwithstanding that climate-related disclosures are useful and relevant to a wide group of stakeholders, such as government, regulators, civil society, analysts, customers and employees, and the general public, we recommend that the XRB deletes “insurance underwriters” and includes “service recipients (and their representatives) and resource providers (and their representatives)” in the definition of “primary users”.

Widening definitions does not change the core principles and requirements of the TCFD recommendations. Rather, it allows a greater number of entities to apply a common standard. If NZ CS 1 is perceived to be intended just for the narrow group of entities under the Act (or difficult to apply), entities not currently within the scope of the Act may apply other voluntary frameworks when required or requested to provide climate-related information. This may result in inconsistent and confusing climate-related information for users.

2. *Do you think the proposed Governance section of NZ CS 1 meets primary user needs?*
- a. *Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)?*  
*If not, please explain why not and identify any alternative proposals.*
  - b. *Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?*
  - c. *Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?*

Subject to our other comments, particularly those in response to Questions 1 and 4, we generally agree that the proposed Governance section of NZ CS 1 meets the information needs of users in the for-profit and public benefit entity sectors.

However, the Act requires an entity that, on balance date, has one or more subsidiaries to prepare group climate statements. How the proposals are expected to apply at the group level is unclear.

Throughout the proposed NZ CS 1, the reference is to “entity” and the term “board of directors/board” is proposed to be defined in NZ CS 1 as “A body of elected or appointed members who jointly oversee the activities of a **company or entity**” [emphasis added].

Group, governance and management structures in the public sector can be complicated. Subsidiaries may have governance structures, management structures, operations and risks that are significant and distinct from the parent.

We recommend that the XRB considers how the proposed NZ CS 1 can be reworded to be clear about how risk reporting is to be applied at the group level, for example, when the XRB is developing the overarching requirements in NZ CS 1 for “reporting entity and reporting period”.

3. *Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?*
- a. *Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)?*  
*If not, please explain why not and identify any alternative proposals.*
  - b. *Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?*
  - c. *Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?*

Subject to our other comments, particularly those in responses to Questions 1, 2 and 4, we agree the proposed Risk Management section of NZ CS 1 meets the information needs of users in the for-profit and public benefit entity sectors.

4. *The XRB has primarily drawn from the TCFD's definitions for its defined terms. Do you agree that we should align closely with the TCFD's definitions?*

We agree that the definitions in NZ CS 1 should be drawn from the TCFD, but we do not agree that they need to be identical or closely aligned in all circumstances. We consider that the definitions need to ensure that NZ CS 1 is appropriate for New Zealand and for the climate reporting entities under the Act. And, importantly, the definitions need to be sector-neutral and future-proofed.

We recommend that the XRB reconsiders the definitions and the language proposed to be used in NZ CS 1 to ensure it is sector-neutral and future-proofed.

For example, we recommend that the XRB reconsiders the terminology and definitions for the following:

- “**Board of directors/board**” is defined as “A body of elected or appointed members who jointly oversee the activities of a company or entity”. [emphasis added]

We recommend that a sector-neutral term like “governance body” be added to the term “Board of directors/board” to ensure the term is appropriate for public benefit entities.

- “Governance” is defined as “The system by which an entity is directed and controlled in the interests of **shareholders** and other stakeholders. Governance involves a set of relationships between an entity’s management, its board, its **shareholders**, and other stakeholders. Governance provides the structure and processes through which the objectives of the entity are set, progress against performance is monitored, and results are evaluated”. [emphasis added]

We recommend that the term “funders” and/or “resource providers” be added to the definition of “Governance”. We consider that the reference to the “interests of shareholders” is too narrow and is not sector-neutral.

- “Primary users” is defined as “Existing and potential investors, lenders and insurance underwriters”.

See our response to Question 1.

- “Value chain” is defined as “The upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, **and disposal/recycling**. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).” [emphasis added]

For completeness, we recommend that the last sentence be reworded to:

“...Downstream activities include operations that relate to processing the materials into a finished product, ~~and~~ delivering it to the end user and their disposal/recycling (e.g., transportation, distribution, and consumption).”

5. *The XRB is particularly interested in feedback on the following defined terms as they are currently proposed: ‘climate-related risk’, ‘climate-related opportunities’, ‘climate-related issues’, ‘physical risk’, and ‘transition risk’.*

- Do you consider that the XRB should align with the TCFD and use the terms ‘climate-related opportunities’ and ‘climate-related issues’, or should we only refer to ‘climate-related risks’?*
- Do you consider that the proposed definitions for these terms are accurate, sufficiently clear and well-explained? Do they need further detail or explanation? If so, should that detail be included in the defined terms or in guidance?*

We consider it useful to align the terms “climate-related risk” and “climate-related opportunities” with the TCFD terminology and definition. We do not consider it necessary to introduce the new term “climate-related issues”. That term can be used generically without a definition.

To align with the definition of “Climate-related opportunities”, the definition of “Climate-related risk” should include the sentence “Climate-related risks will vary depending on the region, market, and industry in which an entity operates”.

6. *Do you have any other views on the defined terms as they are currently proposed?*

See our comments above relating to define terms in response to Questions 1, 2 and 4.

7. *The XRB is currently of the view that adoption provisions for some of the specific disclosures in NZ CS 1 will be required. However, the XRB does not believe it is necessary to provide any adoption provisions for entities in relation to the Governance and Risk Management disclosures. Do you agree with this view? Why or why not?*

We agree that it is not necessary to provide any adoption provisions for entities in relation to the Governance and Risk Management disclosures. However, note our comments on the application of the proposals to groups in response to Question 2.

8. *The XRB currently intends NZ CS 1 to be concise and sector neutral, with sector specific requirements to be contained in guidance. Do you agree with this approach?*

We agree that NZ CS 1 should be concise and sector neutral, with sector specific requirements to be contained in guidance. However, as already noted in our responses to Questions 1, 2 and 4, we do not consider that some of the proposed terminology and definitions are sufficiently sector-neutral.

9. *Do you have any other comments?*

The Consultation Document sets out the international developments on climate disclosure requirements. We note that the key international bodies, including the newly established International Sustainability Standards Board (ISSB), are consulting on the prototype climate disclosure standard issued by The T5 group of climate framework/standard setting institutions.

We encourage the XRB to set, and publish, a strategy on:

- how it intends to deal with these international developments generally;
- whether, and how, ISSB standards will impact the climate standards issued by the XRB and how the XRB intends to address the impacts; and
- how to take advantage of New Zealand’s leadership and standard-maker position in relation to climate standards to influence and/or contribute to the ISSB and the climate or sustainability work of other relevant international standard setters like the International Public Sector Accounting Standards Board and the International Auditing and Assurance Standards Board.