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AUSTRALIA + NEW ZEALAND

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Dear April

## Governance and Risk Management Consultation Document

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide feedback on the above consultation document. CA ANZ continues to be an advocate for, and supporter of, appropriate climate-related financial disclosures and reporting for decision-making. Better disclosure will facilitate more informed decision making, while enabling market forces to drive efficient allocation of capital and support a smooth and just transition to a net zero greenhouse gas emissions economy.

We support the External Reporting Board (XRB) taking on the role of developing climate reporting standards for New Zealand, and its work ensuring that these standards align with international developments. In particular, we support the close alignment to the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). However, we consider it important for the XRB to identify where deviations are needed from the TCFD to tailor Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) for the New Zealand environment.

Further, the establishment of the International Sustainability Standards Board (ISSB) by the IFRS Foundation trustees and publication of the prototype climate standard will lead to a global baseline for climate disclosures. Global capital markets will expect entities to provide disclosures in line with ISSB standards and therefore it will be critical that NZ CS 1 meets this global baseline at a minimum. On this basis we encourage the XRB to engage closely with the newly established ISSB.

We support the principles-based and forward-looking approach that the XRB is taking in developing the standards. We are pleased that NZ CS 1 will form the beginning of a reporting framework for sustainability reporting in Aotearoa New Zealand. We encourage the XRB to consider the likelihood of a more broadly scoped framework when it makes key decisions about concepts and definitions to ensure such concepts and definitions will also be appropriate for the subject matter covered by the broader framework.

CA ANZ's recent [Retail Investor Confidence Survey](#) revealed a growing appetite for climate-related information with over half (53%) saying this information is highly important to their investment decisions. Almost three in five (59%) of more than 750 Chartered Accountants responding to the 2021 Chartered Accountants IFRS Survey (report forthcoming) indicate that climate-related information is already important in the context of their role. This is largely because of the evolving impact of climate on business risk, opportunities, and profits, and accelerating moves toward greater corporate accountability on climate.

The accounting profession is ready and able to play a key role in ensuring transparency and appropriate disclosure of climate-related risks and opportunities, which will maintain and enhance financial stability.

Appendix A contains our detailed responses to the specific questions raised in the consultation document. Appendix B provides more information about CA ANZ.

Should you have any questions about our submission or wish to discuss it with us, please contact Karen McWilliams via email at [karen.mcwilliams@charteredaccountantsanz.com](mailto:karen.mcwilliams@charteredaccountantsanz.com) or phone +61 612 8078 5451.

Yours sincerely

**Peter Vial FCA**  
New Zealand Country Head

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# Appendix A

## Responses to specific 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 broadly support the alignment of this definition with that used by the TCFD and within the IASB *Conceptual Framework for Financial Reporting*.

In more closely aligning this definition with that used by the TCFD, we suggest consideration be given to defining primary users by reference to providers of financial capital, as this terminology may be more relevant to a wider range of entities. This definition could be accompanied by some examples, which would include those currently identified. This could also enhance the relevance of the definition for any potential future extension of either the group of climate reporting entities or future sustainability disclosure standards.

As the XRB progresses its work on NZ CS 1, we recommend it considers including a 'restriction on use' paragraph in the climate statement to highlight that the information included in the statement is intended only for primary users (as defined). Although we acknowledge that climate-related disclosures may also be relevant to a wider group of stakeholders, they were not developed with that wider group in mind. It needs to be recognised that the climate-related disclosures may not meet the needs of this wider group. This issue is particularly acute for the few public sector entities that meet the definition of a climate reporting entity, as such entities typically have an even broader group of users of their external reporting than for-profit entities.

### 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.

Yes.

#### 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?

We suggest that the wording of disclosure requirement 4(c) could be improved. In our opinion, the IFRS TRWG climate-related disclosure prototype has some clearer language that could be adopted.

We note the decision to use the term 'board' to align with the TCFD. However, we encourage the XRB to consider adopting the term 'governance body', which can then be defined to include a board. This would have broader relevance to those climate reporting entities which do not have a board. In addition, we consider it would be helpful for this governance section to briefly include an overview of who the governance body is in this specific context.

We note that the word 'board' is not currently in italics to indicate it is a defined term unlike others within section 7.2.

- 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?**

Yes. We note that detail has been removed from disclosure requirement 4(e), and suggest that this removed detail be provided in the supporting guidance (as is the case with the subsequent Risk Management section).

- 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.**

Overall, we consider the information included within this section will meet the needs of primary users.

- 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?**

We consider that 'other risks' in the context of disclosure requirement 5(b) could be better clarified. Further, we note that risks are commonly assessed for significance in terms of likelihood and impact, however consideration of the likelihood of climate-related risks is not part of the disclosure requirements.

- 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?**

We agree with the high-level reference made to physical and transition risks and note that this should help dissuade a tick-box approach to risk identification. However, there will still be a need to increase the depth of understanding of climate-related risks and opportunities within climate reporting entities. Sector and regional specific examples could be included within the accompanying guidance.

- 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 support the overall alignment with the TCFD's definitions. However, we consider it important for the XRB to identify where deviations are needed from the TCFD to tailor NZ CS 1 for the New Zealand environment. We are pleased that NZ CS 1 will form the beginning of a reporting framework for sustainability reporting in Aotearoa New Zealand. Therefore, we encourage the XRB to consider this future extension when making decisions about key concepts and definitions to ensure those key concepts and definitions would also be applicable for this broader subject matter.

- 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'.**

- a) **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'?**

In our view the terms 'climate-related risks', 'climate-related opportunities' and 'climate-related issues' should all be used. We caution against only using the term 'climate-related risks' as this may result in a one-sided approach to climate risk management and disclosures.

- b) 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 that the definition of climate-related risks could be simplified to:

*The potential negative impacts of climate change on an entity. Climate-related risks can be either physical risks or transition risks.*

We suggest this simplification because the detail provided for physical and transition risks is largely repeated in the definition provided for each of those risks.

Aside from the above, at this stage we do not consider further detail or explanations are needed. However, should such additional information be needed, we consider it should be included within guidance.

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

We have suggested a change to the use and definition of 'board' in our response to question 2 above.

- 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?**

Yes, we agree with this view. We note that the TCFD specifically identified these disclosures as fundamental to an entity's assessment of the materiality of climate-related risks.

- 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?**

Yes, we agree with this approach.

- 9) Do you have any other comments?**

We consider primary users would benefit from more a connection being drawn between the governance and risk management sections. We recommend to the XRB considers including such connections in any accompanying guidance.

We encourage the XRB to provide further clarity about the identity of the reporting entity in the context of disclosures. It would be helpful for entities to know how the disclosures requirements apply to overseas headquartered companies, managed investment schemes, fund managers and insurance branches where governance and risk management processes may sit at different levels to the climate reporting entity itself and/or the assets/operations potentially affected by climate-related issues. To this end, we suggest that key concepts and definitions be adopted from the financial reporting framework.

With respect to guidance on scenario analysis, we encourage the XRB to leverage the work undertaken by the Climate Measurement Standards Initiative (CMSI). The CMSI seeks to balance comparability and relevance for users. That approach is similar to the XRB's principles-based approach. For completeness, we are not suggesting that the XRB should develop the specific scenarios, but instead should continue to work collaboratively with the Ministry for the Environment to ensure the necessary information is available to climate reporting entities.

As noted above, the establishment of the ISSB and publication of the prototype climate standard is

resulting in a global baseline for climate disclosures. This baseline and the disclosure of investment-grade information are best protected and preserved by a robust assurance framework. As the primary users of NZ CS 1 are within a subset of the users of financial statements, they will have similar expectations for the quality and independence of assurance over climate-related disclosures. We encourage the XRB to future proof the design of the assurance framework by considering its application beyond greenhouse gas emissions to the whole of NZ CS 1 and the wider reporting framework for sustainability reporting in Aotearoa New Zealand.

In terms of presentation requirements, we are in favour of the climate statement being an integral part of the entity's annual report, as this will be of benefit to primary users who are interested in all material risks (financial and non-financial, and not just climate). Including climate-related disclosures in the annual report both preserves the inter-connectedness of the information and reduces the reporting burden on preparers. We recommend the use of a reference table to help primary users find relevant information in the annual report.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.