

29<sup>th</sup> November 2021

To:  
Ms. Judith Pinny  
Project Manager, Climate and Governance,  
External Reporting Board,  
New Zealand.

Dear Ms. Pinny,

Thank you for the opportunity to offer comment on NZ CS1 Climate Related Disclosures and for allowing us to do so after the formal due date has passed. We agree with efforts to enhance sustainability reporting by diverse entities and that doing so will facilitate more informed decisions made by various stakeholders. We also agree that accounting standard setters have an important role to play in shaping changes to reporting that simply must occur. At the same time, we feel there are a number of concerns that must be addressed so that the XRB can ensure delivery of the asserted objectives for enhancing sustainability reporting. We outline these concerns in the remainder of the submission.

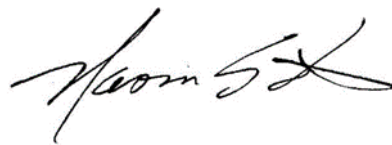
If you require further information about this submission, please do not hesitate to contact us via the information below.

Yours sincerely,



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### Question 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?**

Success of accounting standard-setters such as the XRB in shaping sustainability reporting depends on such efforts being viewed as entirely consistent with, and a normal and obvious part of, the standard setters' core function. As such, any guidance offered should seek to normalise sustainability disclosures as part of the periodic reporting function for the entity. The proposal to include insurance underwriters as primary users is counter to this objective. Although these stakeholders are undoubtedly important, they are not included in the group of primary users focused on for financial reporting. In addition to having different information needs (e.g., underwriters would need a much more in-depth understanding of corporate risks, requiring substantial detail), these stakeholders have alternative means of access to corporate information while performing their duties. While including insurance underwriters reflects the TCFD recommendations, if the goal is to bring key disclosures into the current financial reporting framework, the rationale for expanding the scope to include insurance underwriters may have additional implications for other aspects of financial reporting. Further, by introducing additional primary users, there is a danger that the proposed disclosures will continue to be seen as unique and separate to business financial performance.

## Question 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?**

There is a significant opportunity to be more specific in various aspects of NZ CS 1 in order to enhance the likelihood of more useful disclosures, once it is clear what the implementable criteria for better reporting might be. For example, suppose that key criteria for reporting were transparency and consistency. In this case, more specific wording could be used in recommending disclosures, and this is particularly so the case with scenario disclosures. There is a rapidly increasing body of empirical evidence indicating that current approaches to scenario disclosure differ widely on key dimensions. There is a good opportunity to include some more specific suggestions to better guide practice and unless more specific guidance is offered, having principles-based guidance (e.g. p.10) will not yield comparable reporting in the short term.

Further, with the exception of representational faithfulness, we agree with aligning qualitative requirements with the qualitative characteristics of financial reporting. We acknowledge the notion of representational faithfulness is embedded both in the conceptual frameworks and accounting standards by major accounting standard-setters globally. Despite this, the concept of representational faithfulness remains somewhat elusive in theory, practice, and research, and remains largely non-aspirational. As defined in accounting conceptual frameworks, representational faithfulness clearly de-emphasises the existence of an independent truth and accuracy and does not require any empirical correspondence with the actual phenomenon being reported. Rather, what is important is the ability of the report

preparers to provide sufficient information to enable the user to understand the phenomenon being reported. Further, a faithful representation need not be accurate in all respects but more modestly, requires that no obvious errors have occurred in describing and reporting the transactions and events in question. Specific to NZ CS 1, by codifying non-aspirational definitions of key characteristics of financial information such as representational faithfulness, we naturally restrict our incentive and ability to strive for improvements in reporting practice. As we begin our journey in shaping sustainability disclosures, we urge the XRB to be more aspirational in leading preparers of reports on a journey of continuous improvement in recognition and disclosure of sustainability information.

We also encourage the Board to carefully consider the assumption that the concept of materiality in financial reporting is consistent and known and will therefore also map readily into sustainability reporting. We are well aware of the pervasiveness of the concept in financial reporting, but also note the vagueness of the content and the fundamental flaws in its definition. These issues have led to significant and enduring variations in financial reporting practice. In light of this, applying the concept to sustainability reporting as currently defined will not significantly enhance the comparability of what is reported.

### Question 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?**

Overall, the proposed disclosures provide a good overview of the processes that the company has in place to understand its risks. There is some potential overlap between the discussion of transition and physical risks and what should be forthcoming in proposed disclosures regarding scenarios. Detail of transition and physical risks are highly dependent on the scenarios chosen, and these choices should be discussed along with the scenario results. One of the challenges with a principles-based approach here is that it will be difficult to ensure consistency across companies and across disclosures over time. It might be useful to consider more clearly defining what is meant by the short-, medium-, and longer term. Disclosures regarding investigation of value-chain risks should include discussion of why specific aspects of the value-chain were included/excluded.

## Question 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 the disclosure should be sector neutral, as identifying the appropriate sector for different companies can be complex. There should be a clear statement of what materiality means for the information to be disclosed (see our comment on Question 2), with companies required to disclose “material” information. One option that has been used, for example, in Integrated Reporting for South Africa, is a “comply or explain” approach. This might be useful to ensure that companies consider the disclosures and have valid reasons for failing to provide disclosures of some aspects of climate risk.