

# Aotearoa New Zealand Climate Standards

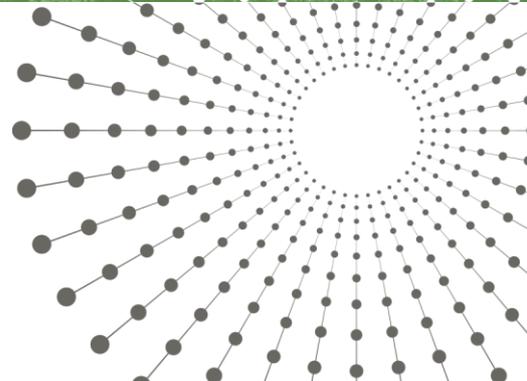
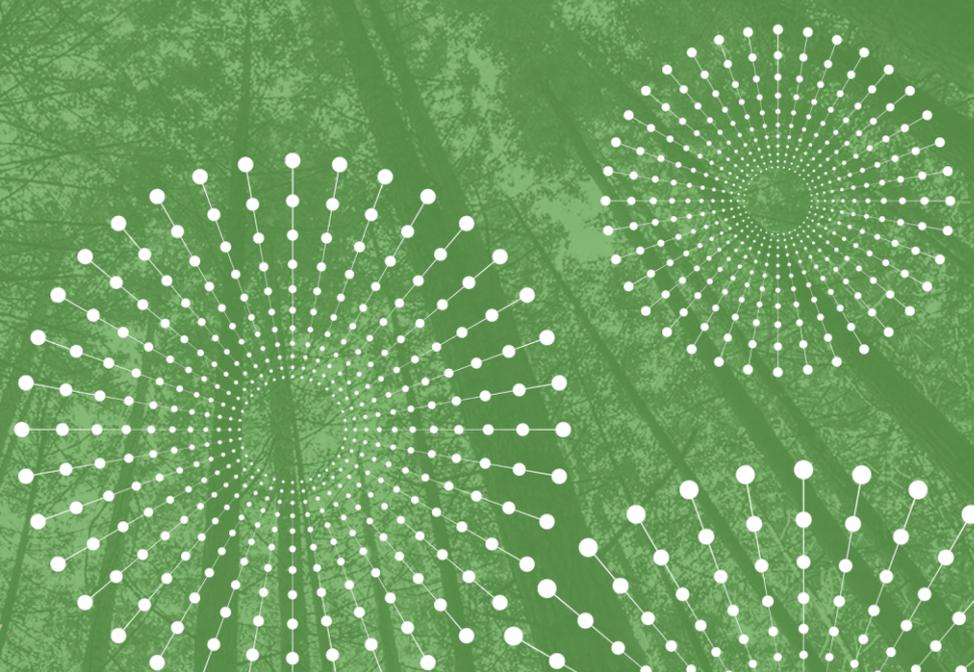
# What we heard

Governance and Risk Management sections of NZ CS 1

Consultation feedback



February 2022



# Consultation feedback

## Governance and Risk Management sections of NZ CS 1

The External Reporting Board is currently consulting on the proposed contents of the forthcoming climate-related disclosure framework. In October 2021, we provided the proposed sections of Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1) on Governance and Risk Management for initial feedback ([here](#)). The responses received are informing our process to develop the climate-related disclosure framework which is intended to be issued as a formal exposure draft in July 2022.

### Submission responses

We received 67 formal responses to the consultation document on Governance and Risk Management issued in October 2021. We are pleased with the quantity and quality of feedback received, and consider the submissions provide a good spread of views from climate reporting entities (CREs) and other organisations. Thank you to everyone who provided feedback.

The overall approach taken by the XRB received strong support; particularly the principles-based approach and close alignment with the Task Force on Climate-related Financial Disclosures (TCFD). Formal responses on the consultation document can be viewed [here](#) (noting some have requested to remain confidential).

We also considered informal responses from social media and events, with the XRB participating in over 20 events during the consultation period. We presented to more than 1,600 people and received over 100 questions

and comments from social media and events. Responses to questions from the consultation launch event can be found [here](#).

Breakdown of formal responses:

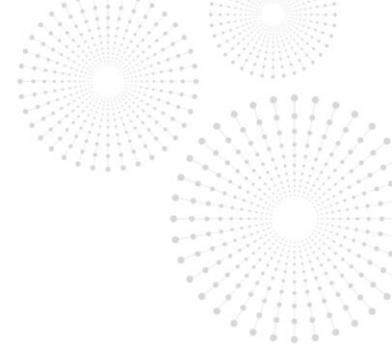


### About this feedback document

This document provides feedback on formal responses received on the proposed Governance and Risk Management sections of NZ CS 1. It also includes discussion of other matters raised in responses, such as comparative information.

Any topics that directly relate to the proposed Strategy and Metrics and Targets sections of the disclosures are not discussed here but will be included in the forthcoming consultation document on Strategy and Metrics and Targets to be released on **16 March 2022**.

# Governance



## Meets primary user needs

Most respondents agreed that the proposed Governance section of NZ CS 1 meets primary user needs.

“Overall, CDP believes that the information provided under this section will be useful to primary users in their decision-making processes” (CDP).

A few respondents commented that some of the individual requirements in the Governance section were overly prescriptive and recommended that the requirements should be more principles based. However, other respondents felt that the requirements should be more prescriptive to ensure consistent application and therefore increase the comparability of climate-related disclosures between CREs. Others highlighted the need for examples or guidance to assist with the consistent application of the proposed requirements.

“[T]hese sections make sense but because they are (necessarily) not prescriptive there will be differences in interpretation and application, and consistency in approach and detail provided across companies is unlikely” (ACC).

In line with our design principles, the XRB intends for NZ CS 1 to be principles based and succinct. We are continuing to challenge ourselves to ensure an appropriate balance is found between principles- and rules-based disclosures.

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## Governance objective

A few respondents recommended that the proposed objective for the Governance section should be amended to also include impact on the climate.

“The objectives...should be changed to reflect the impact of the reporting entity on the climate, not just the impact of the climate on the reporting entity” (Mindful Money).

The XRB notes that the proposed objective is aligned with the TCFD, which focuses on the impact of climate on the entity. See also the comments relating to ESG reporting later in this document.

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## Board skills and competencies

One of the disclosures requires an explanation of *whether and how the board accesses expertise on climate-related issues, either from its own internal capacity and/or from external sources in order to provide appropriate oversight on climate-related issues (paragraph 4(d)).*

The XRB included this proposed requirement in response to investor calls for more information about board skills and competencies in relation to providing oversight of climate-related risks and opportunities.

Respondents had mixed views in relation to this proposed disclosure. Eight respondents specifically expressed agreement with the requirement and supported the rationale provided by the XRB in the consultation document, while six others expressed concerns with an absence of requirements to disclose climate-related skills and competencies of individual board members.

“We agree with the approach of not going so far as requiring disclosure of specific climate-related skills and competencies of individual board members” (Boutique Investment Group).

“We do not support the ‘laissez-faire’ approach taken by the XRB in relation to the disclosure of Board skillsets appropriate for the management of climate change risks” (New Zealand Shareholders Association).

Five other respondents wanted the requirement removed or moved into guidance. The XRB acknowledges the broad range of views put forward by the respondents and will give them due consideration in developing this proposed disclosure for the exposure draft.

# Governance

## Board or governance body

Some respondents recommended that the XRB refer to 'governance body' or bodies rather than 'board' so that NZ CS 1 is applicable to a wider range of entities.

"In consideration of the branch structures of many members, the NZBA suggests it would be beneficial to replace the references to "board" with "governance body or bodies" ... This would provide additional flexibility to branch operations to reflect the governing authority that most directly impact action undertaken in New Zealand. The definitions section could make it clear that the "governance body" is one that sits above "management" (New Zealand Bankers' Association).

"...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" (CA ANZ).

The proposed definition of board in the October consultation document refers to a 'body' of elected or appointed members who jointly oversee the activities of the company or entity. The argument for retaining the 'board' terminology in NZ CS 1 is so it is aligned with TCFD. However, the XRB can see the benefit of using a more generic term and will give further consideration to the issues raised.

## Remuneration policies

Another disclosure asks about board accountability: *how the board holds management accountable for the implementation of climate-related policies, strategies, and targets, including whether and how related performance metrics are incorporated into remuneration policies (paragraph 4(c)).*

Respondents had mixed views on the addition of this disclosure. While some were supportive of the disclosure (or the intent thereof), others expressed concerns with the prescriptiveness of 'whether and how related performance metrics are incorporated into remuneration policies'.

"...this disclosure enhances both transparency and accountability with respect to effective climate governance and the prioritization of climate issues" (CDP).

"Our view is that it is too prescriptive to ask how climate-related performance metrics are incorporated into remuneration policies" (Property for Industry).

The XRB will consider arguments raised by the individual respondents and determine how best to approach this proposed disclosure for the exposure draft. The XRB notes that the IFRS Foundation's Technical Readiness Working Group (TRWG) [prototype](#) contains this proposed disclosure as does the TCFD (in its Metrics and Targets section).

## Detailed comments

Many other detailed comments were received on the proposed Governance disclosure requirements. Comments ranged from wording suggestions to improve clarity, to recommendations for additional items of information for disclosure.

"Consider adding governance metrics such as the frequency of meetings and workshops on climate change, proportion of time or number of board meetings allocated to the issue, remuneration, performance and financial incentives. This could also be encouraged in guidance" (Investor Group on Climate Change).

The XRB is highly appreciative of the suggestions and detailed comments received. We are working through all of these comments, and any amendments to the proposed disclosures as a result of these comments and suggestions will be reflected in the exposure draft.

# Risk Management

## Meets primary user needs

As with the Governance section, most respondents agreed that the proposed Risk Management section of NZ CS 1 meets primary user needs.

"...the information provided under the risk management section of NZ CS 1 will provide information that is useful for decision making to primary users" (Auckland Council).

"Yes. Primary users need to be able to understand that a thorough risk assessment has taken place" (Insurance Council of New Zealand).

"...the risk management section of NZ CS 1 seems appropriate and reasonable" (Silver Fern Farms).

Consistent with the responses to the Governance section, a few respondents queried whether the XRB had got the balance right in terms of the prescriptiveness of the disclosures.

"While it is important to not be too prescriptive, as it will become a 'tick-the-box' exercise for some organisations, we believe a certain level of prescriptiveness is needed so investors can compare entities within sectors" (Steel and Tube).

The XRB is working hard to develop a principles-based and succinct standard that best meets primary users' and preparers' needs.

## Climate-related opportunities

Some respondents recommended the inclusion of climate-related opportunities in the proposed Risk Management section.

The Risk Management section requires disclosure of the *processes* for the identification, assessment and management of climate-related risks, whereas the Strategy section requires disclosure of identified climate-related risks and climate-related opportunities. This is consistent with both the TCFD

The XRB notes that that risk management processes may facilitate the identification of climate-related opportunities. Respondents will be able to provide comments on the proposed Strategy section in the forthcoming consultation document on Strategy and Metrics and Targets to be released on 16 March 2022.

## Managers of registered investment schemes

A few respondents sought clarification on the application of the Risk Management disclosures by managers of registered investment schemes.

"Our view is that the risk management section generally meets primary user needs. However, we have similar feedback to the governance section. It is not clear how this disclosure requirement would be applied by managers in the context of scheme level risk management" (Boutique Investment Group).

The application of NZ CS 1 by managers of registered investment schemes is an area under current active consideration by the XRB.

## Risk examples

Some respondents suggested that that NZ CS 1 should include the 17 examples of climate-related risks from the TCFD for entities to disclose against (see TCFD Table A1.1 on page 75 [here](#)).

"Generally we find this section adequately comprehensive. However, we believe the 17 risks enumerated in TCFD Table A1 should be retained in NZ CS 1 or in the accompanying guidance" (CDP).

As noted in the consultation document the XRB decided not to prescribe this level of detail in NZ CS 1 but proposed to include examples of climate-related risks in guidance. The XRB agrees with those respondents that suggested that any such examples should be identified as non-exhaustive.

# Risk Management

## Value chain

Paragraph 4(c) of the Risk Management section asks entities to disclose the value chain stage(s) covered by their climate-related risk identification and assessment processes. While some respondents expressed support for the inclusion of the disclosure of the value chain stages covered (noting the importance of an entity considering the exposure of its value chain to climate-related risks), a few respondents felt the disclosure should be removed (or discussed in guidance) as it may be onerous to apply and could be interpreted as requiring the disclosure of substantial detail.

“GRI commends inclusion of the ‘value chain’ in the elements that are part of the risk management assessment, as this offers a far wider scope than that of identifying and assessing climate-related risks solely in the supply chain” (GRI).

“...but in our view the TCFD recommendation should not be turned into an obligation to describe the value chain stages covered. As an alternative, the XRB could include a reference to the value chain or supply chain in its accompanying guidance” (Transpower).

“Some FSC members are concerned that “tools and methods” and “value chain” introduce concepts that, notwithstanding a “materiality” override, may require the disclosure of substantial detail. We suggest a more purposive approach should be taken” (Financial Services Council).

Some respondents requested guidance in relation to the application of this disclosure requirement, for example how the XRB envisages this requirement applying to specific types of CREs or understanding “when it would be appropriate to exclude certain parts of an organisation’s value chain in any disclosure” (Silver Fern Farms). The XRB will take specific requests for guidance into consideration as it develops the guidance to sit alongside NZ CS 1.

The XRB agrees with the TCFD’s statement in its most

recent implementation guidance that “when considering its exposure to climate-related risks and opportunities, an organisation should consider the exposure of its value chain as well” (see TCFD page 11 [here](#)). Information about the value chain stage(s) covered provides useful information for users in evaluations of an entity’s risk management processes.

However, taking on board responses received, the XRB will reconsider if any amendments, or guidance is needed for this proposed disclosure. We note the TRWG prototype includes ‘the scope of operations covered’ as an example of information to be disclosed.

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## Detailed comments

As with the Governance section, many respondents also provided detailed comments on the proposed Risk management disclosure requirements. These included wording suggestions to help improve the clarity of the requirements, as well as recommendations for additional items of information to disclose. For example, the RBNZ recommended adding data sources and assumptions as information included in paragraph 4(a) of the Risk Management section.

The XRB is highly appreciative of these suggestions and detailed comments. We are working through all of these comments, and any amendments to the proposed disclosures as a result of these comments and suggestions will be reflected in the exposure draft.

# Definitions

## Alignment with TCFD

There was strong support to align the definitions in NZ CS 1 with existing TCFD definitions as far as possible, including the use of the term climate-related opportunities. We received suggestions to change various individual definitions, and to remove or to add further definitions. There was also a desire expressed to remove explanatory text from definitions, and to be clear where our definitions differ from those of the TCFD, which we have noted.

Some submitters suggested aligning definitions with the TRWG prototype, existing legislation or other existing frameworks. The XRB is continuing to align closely to the TCFD but is having regard to the TRWG prototype and other international developments.

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## Primary users

The XRB proposed that the primary users of climate-related disclosures be *existing and potential investors, lenders and insurance underwriters*. This aligned largely with the TCFD's primary users definition.

Approximately a quarter of respondents agreed with the primary users definition. Some suggested widening the definition to include other users (such as regulators or employees). Other responses noted that expanding the primary users definition would make reporting "significantly wider, onerous, and costly to comply with" (Auckland Council).

We note that the scope of CREs included in this regime relates to the fact they or their products can be invested in. We consider that this provides a strong rationale to provide a tightly focused primary users definition that emphasises investor needs, rather than broadening it to other users.

We acknowledge that some public benefit entities are included in the definition of CREs under section 461O of the Financial Markets Conduct Act 2013. However, they are included by virtue of providing an investment product, not because they are public benefit entities. The information disclosed under this regime should be

targeted at investors into those products. If the scope of CREs changes in the future, we acknowledge that this may warrant a change to the primary user definition, and we would consult further at that point (and would also consult on any other aspect of the proposed climate-related disclosure framework that may need to be amended).

The inclusion of insurance underwriters was queried by some respondents, with Professor Naomi Soderstrom and Associate Professor Brad Potter of the University of Melbourne pointing out that insurance underwriters "have alternative means of access to corporate information while performing their duties" and that including insurance underwriters may risk climate-related disclosures being "seen as unique and separate to business financial performance". We note that regulators also have access to such information while performing their duties.

Considering the feedback received, the XRB proposes to slightly alter the primary users definition. We propose removing insurance underwriters as primary users, and amending the definition to *existing and potential investors, lenders and other creditors*. This aligns with both the definition of primary users for For-profit entities in the *New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting* ([The New Zealand Conceptual Framework](#)), as well as the proposed definition of primary users in the TRWG prototype.

Without obscuring with unnecessary detail, CREs may provide information in their climate statement they consider relevant to any other user. CREs may also clarify in their climate statement that the disclosures are targeted at the specified primary users (to avoid, for example, a member of the public misinterpreting the nature or intent of the disclosures in the climate statement of a public benefit entity).

However, the XRB emphasises the importance of each CRE considering the information needs of its specific primary users. For example, existing or potential investors into a KiwiSaver scheme may require different information, explained in different ways, to a highly sophisticated investor into listed debt.

# Other topics

## Design principles

All those who commented on the XRB's design principles for developing the climate-related disclosure framework were supportive.

"...these principles provide a sound platform for the development of the disclosure requirements and have resulted in meaningful and reasonable reporting requirements for Governance and Risk Management" (AIA New Zealand).

The XRB is basing its consideration of all comments and suggestions received on these design principles.

## Scope of climate reporting entities

Some responses commented on the scope of the CREs that are included. However, it is legislation rather than the XRB that determines the scope of CREs. In 2021 the Climate Change Commission recommended that the Government explore extending mandatory disclosures to cover a broader range of activities, for example, public entities at the national and local level. The XRB understands that the Government is intending to explore and evaluate this recommendation. Additionally, Cabinet has directed officials to consult on how non-listed companies consider climate change risk.

## Adoption provisions

Most responses agreed with the XRB proposal that adoption provisions were unnecessary for Governance and Risk Management.

Of those who advocated for adoption provisions, the primary argument related to enabling recognition "that many organisations are in the early stages of developing their capability in relation to climate-related reporting" (New Zealand Bankers' Association) and that it "can be quite a large task" (Auckland Council) for entities to implement climate risk frameworks.

However, the intent of both the Governance and Risk Management sections of NZ CS 1 is for entities to disclose the extent of their activities, *not* to require a certain level of performance. This also means that it will be entirely within scope for reporting entities to, for example, "include anticipated actions/plans to improve disclosures" (BNZ) if they consider that it is material information for users.

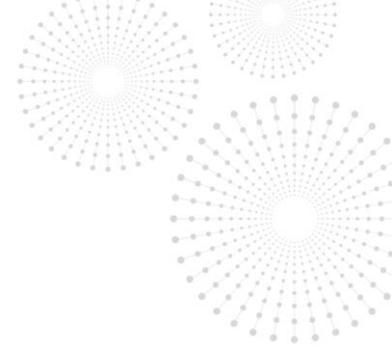
## Alignment with international frameworks and developments

There was overwhelming support for the XRB to align the climate-related disclosure framework with the TCFD's recommendations. This is to help the framework to remain internationally relevant and ambitious.

"EY supports XRB's decision to base NZ CS 1 on the TCFD recommendations, as the leading framework for climate-related disclosures internationally, and to provide additional disclosure requirements, where necessary, to ensure that NZ CS 1 is ambitious and forward-looking." (EY).

Some respondents commented on the need to consider the International Sustainability Standards Board (ISSB)'s forthcoming climate standard, and how climate standards will interact with other topics such as nature-related disclosures or modern-day slavery.

The XRB is continuing to follow the ISSB's work closely. The XRB determines whether to adopt international reporting standards. In the case of climate-related disclosures the XRB is aware that, as is the case for several other jurisdictions such as the United Kingdom, domestic mandates are running ahead of international developments. This means that it is likely that the current climate-related disclosure framework for Aotearoa New Zealand will not be superseded by any international reporting standards for some time. The review process (see next page) will also take into account relevant international developments.



## Review process

Some responses requested clarification on the review process for the climate-related disclosure framework. A period of certainty is important when a standard is first applied to allow entities time to embed it in their reporting. The XRB has no specific policy on post-implementation reviews, but to date, has referred to the IFRS Foundation policy that post-implementation reviews for new accounting standards normally begin approximately 30-36 months after the effective date of a standard. Applying this timeframe would mean beginning a post-implementation review no later than December 2025 (assuming the XRB issues NZ CS 1 as originally intended in December 2022).

The guidance that is issued alongside the standards will however be more frequently updated in order to respond to changing circumstances, and to assist CREs in meeting the needs of primary users of the disclosures. The XRB intends to issue updated guidance at least biennially, consulting widely with preparers and primary users in doing so.

## Industry-specific guidance

Most responses on the topic of whether NZ CS 1 should be concise and industry-neutral, with industry-specific requirements to be contained in guidance, agreed with this approach. Respondents favoured the creation of 'backbone' guidance applicable to all industries, with different, industry-specific guidance developed as appropriate to account for the different challenges and constraints each industry faces in preparing climate-related disclosures.

The XRB is currently investigating how industry-specific guidance may need to vary for different types of CREs currently captured under the regime.

## Materiality

Several respondents discussed the topic of materiality and the importance of materiality judgements, including nine that advocated for the XRB to include double materiality (that is, the impacts of an entity on climate change) and five that requested the XRB to provide a definition or further guidance on materiality.

We will provide a definition of materiality as part of a proposed section on materiality in the forthcoming consultation document on Strategy and Metrics and Targets in March 2022.

## ESG reporting

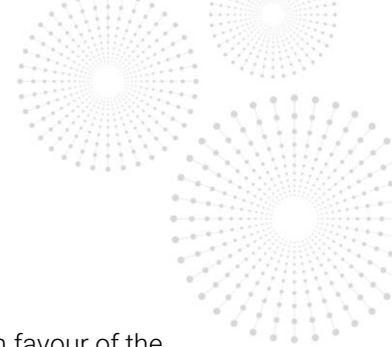
Several responses discussed the need for a wider form of extended external reporting.

"Bloomberg welcomes [ESG reporting] and would encourage XRB to establish mandatory disclosures of ESG indicators applicable to financial market participants to improve the quality of quantitative and science-based ESG data" (Bloomberg).

As noted in the foreword to the Governance and Risk Management consultation document, the XRB is currently developing a project on this topic as allowed for under section 19A of the Financial Reporting Act 2013. This section provides the XRB with a mandate to issue non-binding guidance that relates to non-financial reporting on one or more of the following matters:

- i. an entity's governance;
- ii. an entity's strategic direction and targets;
- iii. the social, environmental, and economic context in which an entity operates; and
- iv. any other matter relating to an entity's performance or position.

The XRB will be working over 2022 and 2023 to determine what this will look like and is seeking to embed Te Aō Māori in this mahi.



## Group reporting

The XRB heard that clarification is required around how group climate reporting can occur.

"It needs to be clear whether a parent needs to disclose the risk management and governance for a subsidiary or joint venture (Insurance Council of New Zealand).

"In our view, the application of NZ CS 1 to governance (and management) for group climate reporting needs further thought to ensure increased clarity (Office of the Auditor General).

The XRB notes that group climate statements must be prepared if the CRE has on balance date one or more subsidiaries (section 461ZA of the Financial Markets Conduct Act 2013). Requirements in relation to the reporting entity and reporting period will be included in the exposure draft. The XRB's view is that, except as otherwise required by the Financial Markets Conduct Act, the reporting entity and reporting period will be the same as the financial statements.

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## Presentation requirements

Of those submissions that discussed presentation requirements, including the location of disclosures, the majority preferred climate-related disclosures to be fully integrated into other forms of reporting (such as annual reports) and that the XRB should not prescribe the location of CRE's climate statements.

"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" (CA ANZ).

"Entities should be able to make the required disclosures against NZ CS 1 wherever is most appropriate for their business...so that these can be easily aligned with existing disclosures" (Mercury).

Respondents were also largely in favour of the requirement for a reference table to help mitigate any difficulties for primary users in identifying the information they are seeking.

"We also support your thinking in cases where CREs wish to integrate their disclosures throughout their annual report. Providing a table that cross-references the required disclosures and their location in the annual report or other documentation enables ease of locating information" (FinTechNZ).

Bloomberg submitted that they encouraged "disclosures to be presented as a series of Y/N questions, where feasible, in the entity's annual report".

The XRB considers that much of the disclosures presented in CRE's climate statements will necessarily be qualitative and unable to be presented in a series of yes/no questions. This enables CREs to tell a complete story of that entity's many climate-related risks and climate-related opportunities, and to demonstrate that the CRE has adequately engaged with the intent and content of the disclosure requirements.

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## Managers of registered investment schemes

A common issue raised by managers of registered investment schemes was whether they need to disclose separately in relation to activities that are the same across multiple funds, or whether the XRB could allow them to consolidate part or all of their climate statements.

The XRB is currently working through the legal issues relating to this topic to ensure that our guidance supporting the climate-related disclosure framework meets the requirements of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 as a whole. We intend to provide guidance on this topic as part of the exposure draft.

## Climate-related issues

We proposed using the TCFD's term 'climate-related issues' to represent both climate-related risks and climate-related opportunities. However, most respondents found this term unnecessary or confusing.

Consequently, we now propose to remove this term and instead make specific reference to climate-related risks and climate-related opportunities where relevant.

this adoption provision will be contained within NZ CS 2 (First time adoption provisions).

## Location of climate statement register

Some respondents commented on the location of the register for climate statements. The XRB understands that this is a matter being currently worked through by the Ministry of Business, Innovation and Employment (MBIE).

## Comparative information

Respondents requested clarification from the XRB as to whether comparative information would be required for year 1 reporting. The XRB proposes that comparative information will not be required for year 1 reporting, and

## What's next

We would like to thank all respondents for the time and effort they have put into providing feedback on our initial consultation document.

On 16 March 2022 we will be issuing our second consultation document on the proposed disclosures for the Strategy, and Metrics and Targets sections of NZ CS 1.

After that, we are aiming to issue a formal exposure draft of the entire climate-related disclosure framework in July 2022.

We look forward to continued high levels of engagement from you, as we continue our journey to develop a climate-related disclosure framework for Aotearoa New Zealand.



## Contact us

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