

02 May 2022

External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

Dear Board Members,

Deloitte Submission on Aotearoa New Zealand Climate Standard 1 *Climate-related Disclosures – Strategy, Targets and Metrics* ('NZ CS 1'); and NZ CS3 – General Requirements for Climate-related Disclosures; Materiality - proposed sections; and Materiality - Key decisions.

Thank you for the opportunity to comment on NZ CS 1 for the purpose of New Zealand mandated climate related disclosures in alignment with the Taskforce for Climate-related Disclosures framework.

We support the creation of such standards and the general direction of the proposed disclosures at the national level. This is a significant step in response to the urgent need of investors and other stakeholders to understand how climate and sustainability risks and opportunities faced by business affect enterprise value and financial performance.

We also welcome the introduction of international climate-related disclosure standards by the International Financial Reporting Standards Foundation's (IFRSF) International Sustainability Standards Board and we encourage XRB to align closely with these for the purposes of compatibility. Worldwide consistent adoption of the ISSB standards is essential to achieving true harmonisation, as opposed to different countries or regions adopting their own standards, which are similar but not the same as the ISSB standards. ISSB "adoption" not "alignment" is therefore critical.

ISSB standards on general disclosure requirements and climate are expected to become available in late 2022, with companies able to use these standards as early as from 2023 reporting cycle if adopted by jurisdictional authorities. One set of standards allows for increased comparability of data across jurisdictions to equip investors with "apples-to-apples" comparison points and companies with improved efficiency in producing corporate reports.

When fragmentation exists, companies and other stakeholders spend time and money on meeting duplicative regulatory requirements, resulting in additional burden and money spent on duplication of technical systems and/or teams, etc. and a potential loss of transparency and comparability for investors and other key stakeholders. Further, inconsistencies may create an uneven playing field for businesses operating in certain geographies.

While we understand the reasons for issuing the NZ Climate standard in parts, we note that our comments may be incomplete or may change as the remaining parts are finalised. Consequently, we recommend that the Board seeks feedback on the document, in its entirety, once all parts have been exposed to ensure that there are no inconsistencies or matters that may preclude effective benchmarking and assurance.

We have included our comments in Appendix 1 in response to the specific questions raised. Please do not hesitate to contact us should you require further clarification on any of the matters discussed.

Yours sincerely

A handwritten signature in cursive script that reads "Deloitte Limited".

Andrew Boivin

Partner

for Deloitte Limited (as trustee for the Deloitte Trading Trust)

Enclosure: Appendix 1: NZ CS 1: Strategy
Appendix 2: NZ CS 1: Metrics & Targets
Appendix 3: Assurance
Appendix 4: NZ CS 3

Appendix 1

NZ CS 1: Strategy

1. **Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?**
2. Transition risks: XRB may wish to consider including more detail on Transition risks and opportunities; and providing more detailed guidance relating to Transition risk and opportunity scenario analysis. XRB's guidance on Transition Risks may benefit from including information about Transition Risk scenarios, or guiding CREs toward resources such as those provided by the Network for Greening the Financial System ([NGFS](#)).
3. To ensure consistent outputs from the Disclosures, XRB may also consider defining the scenarios that CREs should apply for the purposes of Physical Risk scenario analysis and seek to align with the guidance provided by government's National Climate Change Risk Assessment framework (as recommended by the TCFD).
4. **Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.**
5. XRB may consider providing CRE's with guidance and definitions that are in-step with government targets and guidance, to ensure a degree of homogeneity in report structures that would enable primary users to benchmark performance more effectively.
6. **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?**
7. There appears to be conflicting messaging relating to Transition Planning. This is addressed in greater detail in responses 20 – 23.
8. **Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?**
9. As above, this section would benefit from more detailed guidance on Transition Risk scenarios.
10. This section would also benefit from clearer and more consistent guidance on Transition Planning, ensuring that objectives are aligned with Central Government's Nationally Determined Contribution targets.
11. **Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?**
12. Yes, a description of the business model and strategy provides the regulator with a reference point against which to assess the appropriateness and relevance of the climate risk scenario analysis and the resilience strategy.

13. **Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a ‘greater than 2°C scenario’? Why or why not?**
14. In the interest of ensuring that disclosures that are comparable, XRB may consider using wording that ensures CREs access and reference the most current data sets. XRB’s reference to Representative Concentration Pathway scenarios suggests that XRB is referencing the earlier IPCC AR5 report, which has been superseded by the AR6 report and datasets.
15. It is worth noting that the datasets used in the most recent IPCC AR6 report have been derived from an updated methodology (Shared Socio-economic Pathways) and consequently, the global warming projections have been upwardly revised. Correspondingly, New Zealand’s National Institute for Weather and Atmospheric Research (NIWA) is currently revising the climate change projections for New Zealand.
16. To elicit consistent and comparable disclosures, XRB may consider revising its use of terminology to reflect the most current datasets - i.e. Shared Socio-economic Pathways – Representative Concentration Pathways (SSP-RCP).
17. Alternatively, XRB may consider using more generic terminology such as ‘the latest global warming scenarios provided by the IPCC Scenarios: In terms of prescribing which scenarios to test against, the Ministry for the Environment’s National Climate Change Risk Assessment (NCCRA) Framework recommends assessing against **at least two** global warming pathways **above** the 2° Celsius scenario and specifies these as being the RCP4.5 (SSP2-4.5) and RCP 8.5 (SSP5-8.5) – refer to p22 of the National Climate Change Risk Assessment Framework (NCCRA / [Arotakenga Huringa Āhuarangi](#)).
18. The TCFD guidance recommends that disclosers align with the guidance provided by the national government in question. To ensure alignment with TCFD and central government, and to ensure greater consistency and comparability of disclosures, XRB may consider aligning with the scenario analysis methodology employed by government for the purposes of the NCCRA – in other words, clearly defining the scenarios as SSP1 – 2.6; SSP2-4.5; and SSP5-8.5.
19. **We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?**
20. XRB’s non-requirement for CRE’s to tie transition plans to established targets appears to run counter to the commentary set out in **Section 6.3, Table 5: Proposed first-time adoption provisions for Strategy**. In Table 5 - Transition Plans - Comment, XRB notes:
21. *This approach reflects the demands of primary users, the urgency of the climate crisis and the need to reduce emissions in line with existing legislative emissions reduction targets at the national level, in the context of the Paris Agreement. Capability building is not a concern in the same way as it is for adaptation planning.*

22. We suggest that XRB encourages CREs to set emissions reduction targets that are, at a minimum, aligned with New Zealand's Nationally Determined Contribution, which in turn supports the objective of an orderly transition that shields New Zealand businesses against the supply and demand shocks that are predicted under the NGFS disorderly transition scenarios.
23. Furthermore, encouraging CREs to adopt science-based targets that are aligned to the Nationally Determined Contribution will serve to shield CRE's against future potential carbon price exposure.
24. **Do you have any views on the defined terms as they are currently proposed?**
25. As above, in the interest of consistency and comparability, XRB may consider aligning definitions and guidance with those provided by the current IPCC climate projections; and with central government guidance on climate change assessments, as set out in the NCCRA; and to reference and include the NGFS terminology for defining transition scenarios.
26. **The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1: Do you agree with the proposed first-time adoption provisions? Why or why not?**
27. The first-time adoption provisions appear to be fair and reasonable and will provide CREs adequate time to gain the level of maturity required for compliant disclosures, going forward. The adoption provisions appear to be well-considered insofar as they acknowledge the complexity associated with quantifying the financial impact of climate change, and with developing appropriate adaptation strategies. The staged approach for including quantitative data and for establishing adaptation and transition planning appears to be sensible.
28. **In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.**
29. The XRB may consider including similar adoption provisions for the Targets & Metrics sections, with specific reference to third-party verified value chain emissions, given the absence of established methodologies for capturing and reporting value chain emissions.
30. **If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?**
 - a. N/A.

Appendix 2

NZ CS 1: Metrics and Targets

31. Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?
32. Please refer to the responses below.
33. Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.
34. For the purposes of achieving consistent and comparable outputs, XRB may consider specifying a measurable and unambiguous metric, such as absolute emissions reduction of CO₂e.
35. Several of the cross-industry metrics such as transition and physical risks, and subjective internal emissions pricing will not yield comparable or meaningful outputs. Emissions intensity, for example, will not provide a clear picture of emissions performance; it provides an indication of energy efficiency without considering other factors such as increased productivity or growth. In other words, an organisation may have improved its energy efficiency, but its emissions footprint continues to grow due to expansion of operations. Similarly, internal carbon pricing, unless linked to an external verifiable source such as Treasury's carbon shadow price, risks providing misleading or incomplete information relating to an organisation's carbon price exposure.
36. 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?
37. It is unclear as to whether XRB requires CREs to adopt one, or all, of the cross-industry metrics. Point 4 on p32 implies that all metrics must be adopted and disclosed; Point 5 on p32 suggests that CREs can select metrics on a discretionary basis; Point 8 on p33 suggests that CREs can choose one of the metrics, for the purposes of target-setting.
38. Some of the definitions would benefit from clearer wording. Emissions intensity, for example, could be defined as CO₂e/dollar invested; or CO₂e / m² floor space; or CO₂e / dollar of sales revenue.
39. Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?
40. This section would benefit from more detailed guidance on Scope 3 Value Chain measurement, methodologies, available published international guidance, and sources of emission factors.
41. We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?

42. XRB may consider providing the context for each proposed metric and to provide a clear link between each metric and its corresponding target.
43. XRB may also consider requiring CREs to adopt science-based targets to ensure that New Zealand tracks more effectively toward its NDC target.
44. **We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?**
45. **Emission Factor databases:** Particularly for certain scope 3 value chain categories of emissions, there is a lack of readily/publicly available and up to date emission factors to use in measurement. For example, companies that wish to undertake Scope 3 screening using dollar spend, do not have readily available economic consumption based/dollar-based emission factor databases to access. Existing studies were done many years ago. On the other hand certain categories will have multiple sources of emission factors which would impact on the comparability of reporting/measurement across reporting entities.
46. **Engagement within the value chain:** Companies looking to obtain information on the emissions produced by their upstream and downstream activities will encounter difficulties in obtaining good quality information and data from third parties outside their control. This in turn will impact on the quality, completeness, and accuracy of emissions measurement.
47. We recommend that the XRB include sufficient guidance on where to access emission factors that will assist in measurement across the value chain. There should be a phased introduction of scope 3 value chain assurance given the level of uncertainty in data, measurement, and methodologies.
48. **Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?**
49. Section 8 f) outlines that an entity must disclose a summary of specific exclusions of sources, facilities and/or operations. We recommend that entities also explain why these have been excluded to enhance transparency.
50. **Do you have any views on the defined terms as they are currently proposed?**
51. No
52. **The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?**
53. No. XRB may consider providing a first-time provision to allow CREs to include scope 3 value chain from year 2 onwards, in order to allow CREs time to prepare their data collection methodology, quality assurance processes, and measurement approaches.

Appendix 3

Assurance

54. **The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?**
55. We agree with respect to scope 1 and 2 emissions, however we think full scope 3 value chain emissions should have a phased introduction for assurance given the high degree of estimation uncertainty, poor underlying data quality, and lack of readily available and up to date emission factors for certain scope 3 categories.

Appendix 4

NZ CS 3

56. The XRB has proposed a definition of material (*Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term*). Do you agree with this definition? Why or why not?
57. We agree, however we echo the XRB's wording in the consultation that the definition of materiality be evolved in the future to include a double materiality lens. The double materiality approach corresponds to the European Union's European Financial Reporting Advisory Group (EFRAG)'s approach. There are likely to be entities in New Zealand that will be captured by the EU's Corporate Sustainability Reporting Directive (CSRD) requirements.
58. Do you have any other comments on the proposed materiality section?
59. No