

XRB II Consultation Document

2 May 2022

NZ CS: Strategy - Questions to consider	
XRB	Fonterra response
<p>Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?</p> <p>(a) 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.</p> <p>(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?</p> <p>(c) 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?</p>	<p>a) Yes b) Yes c) Potentially.</p> <p>Table 2: Proposed structure of the four sections in NZ CS 1 (pg. 17) states that the disclosures should not be used as a checklist, rather entities will need to apply judgement to determine what information is material. This conflicts with the language in the disclosure sections of NZ CS 1 which state that the disclosure sections 'must' disclose. This creates tension between the proposed disclosure and the intended structure and use.</p> <p>The way this section is currently written is very prescriptive and if businesses are required to meet each disclosure it goes beyond the objective of understanding the impacts of risk and opportunity in a way which is material to the reporting entity. This should be clarified in the final guidance.</p>
<p>Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?</p>	<p>This is an example of potential ambiguity. We believe a disclosure on business model and strategy is appropriate, but the reporting entity should be allowed to cross reference to other documents that describe the entity's business model without repeating such information in the climate statement (e.g. Annual Report).</p>
<p>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'?</p> <p>Why or why not?</p>	<p>Fonterra does not consider that the particular temperature increase scenario should be prescribed in the Standard but considers still that guidance should identify the preferred temperature increase scenarios(s) to use. This allows some flexibility for reporting entities to identify scenarios appropriate to their business, while also encouraging certainty and comparability.</p> <p>To reduce compliance effort and costs, to help improve comparability and facilitate a more self-consistent view for NZ Inc we believe that XRB and Government Agencies should provide guidance, accepted physical risk data sets, and ideally template physical and transition risk</p>

	<p>scenarios (and assumptions) which companies can then use as the starting point for their business-specific scenario analysis.</p> <p>In order to allow businesses to properly identify climate related physical and transition risks, and to enhance comparability within sectors, template scenarios or guidance should specify that climate scenarios need to take into account both transition and physical risks. Template scenarios for the New Zealand context that could be updated annually as capacity develops would greatly assist reporting entities.</p>
<p>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.</p> <p>Do you agree? Why or why not?</p>	<p>Yes, we agree. To avoid ambiguity, we understand that transition plans do not need to be tied to any particular target outcome. This is separate and decoupled from the evaluation of greenhouse gas reduction targets.</p>
<p>Do you have any views on the defined terms as they are currently proposed?</p>	<p>N/A</p>
<p>The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:</p> <p>(a) Do you agree with the proposed first-time adoption provisions? Why or why not?</p> <p>(b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.</p> <p>(c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?</p>	<p>a) Yes.</p> <p>b) None identified.</p> <p>c) N/A</p>
<p>Metrics & Targets – Questions to consider</p>	
<p>Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?</p> <p>(a) 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.</p> <p>(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?</p> <p>(c) 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?</p>	<p>a) Yes</p> <p>b) Yes</p> <p>c) Yes, however, to improve comparability and facilitate consistent views on climate-related risks, both for at a company/sector level and for NZ Inc, we believe that XRB and Government Agencies should provide consistent guidance, assumptions and template scenarios that companies can then use as the starting point for their business-specific scenario analysis. This would ensure that reporting entities are able to focus resources on developing business strategies to respond to climate risk and opportunities, rather than each duplicating effort and resources developing potentially inconsistent scenarios.</p>
<p>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</p>	<p>This is reasonable.</p> <p>It is more important in the first instance to focus on cross-industry metrics and carefully introduce</p>

<p>by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?</p>	<p>industry specific after they have been adopted in global standards.</p>
<p>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?</p>	<p>We support the requirement to disclose scope 3 emissions provided this is aligned with GHG reporting protocol guidance. By their nature, Scope 3 emissions have accuracy and completeness limitations, but disclosures can and should transparently identify such limitations to assist users.</p>
<p>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?</p>	<p>We understand the intent and benefits of this approach. We note that the elapsed time to produce verifiable environmental data is typically much longer than for financial and this will prove challenging for some reporting entities.</p>
<p>Do you have any views on the defined terms as they are currently proposed?</p>	<p>We note that entities must disclose the amount or percentage of assets or activities that are vulnerable for transition and physical risks (pg. 32 4.C and 4.D). Given this will be used as a cross-industry metric, there should be further guidance to define 'vulnerable' and/or require entities to disclose their approach to defining vulnerability to ensure fairness and comparability in reporting.</p>
<p>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?</p>	<p>Agree.</p>
<p>Assurance – Questions to consider</p>	
<p>The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?</p>	<p>Agree.</p>
<p>[NZ CS 3 – Questions to consider</p>	
<p>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?</p>	<p>Agree, this is an appropriate first step because it aligns with existing approach for financial statements and matches the initial proposal from ISSB.</p>
<p>Do you have any other comments on the proposed materiality section?</p>	<p>While we support the XRB's proposed approach, we believe the effectiveness and consistency of the financially-focussed materiality approach will require ongoing monitoring and potential changes to better consider double materiality may need to be assessed in the future.</p>
<p>Any other feedback</p>	
<p>7(b)(ii) – governance process used in scenario analysis. Fonterra would prefer items related to governance be included in the governance section of the full exposure draft.</p>	