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External Reporting Board  
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## **External Reporting Board – Consultation on Climate-Related Disclosures – Strategy, and Metrics and Targets**

This submission is made on behalf of AIA New Zealand Limited and its related entities (together, **AIA NZ**) in response to the External Reporting Board's consultation paper on the proposed Strategy, and Metrics and Targets sections of Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) (**Consultation Paper**).

### **About AIA New Zealand**

AIA NZ is a member of the AIA Group (**AIA**), which comprises the largest independent publicly listed pan-Asian life insurance group. It has a presence in 18 markets in Asia-Pacific and is listed on the Main Board of The Stock Exchange of Hong Kong. It is a market leader in the Asia-Pacific region (excluding Japan) based on life insurance premiums and holds leading positions across the majority of its markets.

Established in New Zealand in 1981, AIA is New Zealand's largest life insurer, and has been in business in New Zealand for over 40 years. AIA's vision is to champion New Zealand to be the healthiest and best protected nation in the world.

AIA NZ offers a range of life and health insurance products that meet the needs of over 450,000 New Zealanders. AIA NZ is committed to an operating philosophy of *Doing the Right Thing, in the Right Way, with the Right People*. AIA NZ operates a shared value insurance model with science-backed health and wellbeing programme AIA Vitality, and promises to help Kiwis to lead Healthier, Longer, Better Lives.

AIA NZ is also a prominent member of the Financial Services Council (**FSC**).

### **About this submission**

AIA NZ supports the development of a mandatory climate-related disclosure framework by the External Reporting Board (**XR**B).



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AIA is a signatory to the United Nations Global Compact (UN Global Compact) and reports annually on AIA's progress toward the UN Global Compact Ten Principles, as well as the Task Force on Climate-related Financial Disclosures (TCFD). AIA has committed to achieving Net-Zero greenhouse gas emissions by 2050 within the Science Based Targets initiative (SBTi), a global body enabling businesses to set ambitious emissions reduction targets in line with the latest climate science.

Our responses to the questions posed in the Consultation Paper are set out in the Appendix attached to this letter. The key points of our submission are:

- AIA NZ strongly supports a principles-based approach to climate-related disclosure which is closely aligned with international climate-reporting standards.
- In some cases, the proposed standard for Strategy, Metrics and Targets imposes disclosure obligations over and above those recommended by the TCFD and TRWG. We consider that the XRB standards should always align to the TCFD recommendations and the TRWG Prototype unless there is a compelling reason not to. Our preference is that the additional disclosure obligations are removed to ensure climate reporting entities' (CREs) reporting requirements are consistent with international standards.
- AIA NZ considers the proposed standard is overly prescriptive in some respects. While we understand the need for mandatory disclosure, we consider it would be preferable to have a high-level disclosure requirement, followed by information that an entity 'should include'. That would give CREs the ability to provide meaningful disclosure where they have not yet developed the required capabilities.
- Obtaining comprehensive information around investments for Scope 3 disclosures can be difficult and resource intensive, depending on their nature and location. Entities will be heavily reliant on third parties in this regard. In our view, a phased approach is necessary. AIA NZ considers further first-time adoption provisions would be helpful, particularly for the Metrics and Targets section.
- In AIA NZ's view, industry-specific guidance will be essential for entities to plan and prepare for the first reporting period and beyond. For some entities that may be as soon as 1 April 2023. We support a coordinated industry approach and would appreciate further clarity on when this is likely to be begin.

Please feel free to contact us should you have any questions in relation to our submission or would like to discuss any aspect further.

Yours sincerely

Kristy Redfern  
**General Counsel**  
**AIA New Zealand Limited**



## Appendix: AIA Responses to Consultation Paper questions

### Strategy

#### 1. Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?

- 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.*

AIA NZ agrees that the information disclosed in the draft Strategy section will be useful for primary users to make decisions in relation to a particular entity.

AIA NZ's view is that the development of sector-specific guidance will be essential to ensure similar types of entities provide comparable and consistent information. It is not clear when industry-specific guidance will be issued, but this will be key to AIA NZ's disclosure preparations. We would appreciate any indication that XRB is able to provide about when it will provide sector-specific guidance and are happy to contribute to a coordinated industry approach.

- 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?*

In general, the Strategy section is clear and relatively unambiguous.

One area that could be improved is paragraph 4(a), specifically the definition of 'short', 'medium' and 'long-term'. As currently drafted, an entity must disclose how it defines short, medium and long-term and how its definitions link to its strategic planning and capital deployment plans. AIA NZ considers it would be useful for guidance to be issued indicating an appropriate range for each category that is sector specific. This would assist investors in comparing analysis undertaken between CREs.

- 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?*

AIA NZ considers the Strategy section of the standard is adequately comprehensive. However, we would prefer to see it adopt a more principles-based approach. Paragraphs 4 to 7 refer to information an entity 'must' disclose or include. While we recognise the mandatory nature of these disclosures, it will nevertheless be challenging for some entities, at least initially, to comply with the standard in all respects. To better ensure the success of mandatory climate-related disclosures we recommend that the standard allows for greater flexibility on what reporting is required and the level of detail for the first two reporting periods, then allow the standard to evolve over time as our capability and understanding of our climate risks and impacts improves.

On page 17 of the Consultation Paper, XRB acknowledges that the depth of understanding of climate-related risks and opportunities varies substantially across Climate Reporting Entities (**CREs**) and that capability to enable high quality reporting takes time to develop. It is important to recognise that many entities will be reliant on third parties to provide them with qualitative information. Those third



parties are themselves at varying stages of preparation and readiness for climate-related disclosures. In addition, they may not be based in New Zealand, and therefore subject to different rules and requirements for climate-related disclosures. A principles-based approach would allow entities to develop their capabilities and make arrangements with their third-party providers to obtain higher quality information over time.

It is also worth acknowledging that many CREs are members of a wider international group. The group is likely to have its own disclosure requirements, strategy and timeline for implementation which then feeds into the local entity's governance, strategy, metrics and targets. While local entities will have the benefit of leveraging the skills and experience of their international counterparts, it also means some entities will be working within wider parameters in establishing their climate reporting. For example, we can foresee a tension between a New Zealand-based entity wishing to use first-time adoption provisions, but their parent company is more advanced in their climate reporting journey and is able to provide more comprehensive disclosure. For that reason, we consider NZ CS 1 should:

- be as closely aligned to the TCFD international framework as possible, and
- allow sufficient flexibility to enable all entities to provide meaningful disclosure.

**2. Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?**

A standalone disclosure describing the entity's business model may be useful in order to put climate-related disclosures in context. However, CREs will need to strike a balance between providing enough information for the disclosure to be useful for primary users without disclosing commercially sensitive information.

The draft standard currently states that an entity must include 'a description of its business model and strategy'. In the consultation document, XRB indicates it intends this to be 'summarised information'. AIA NZ considers this should be clearer. We recommend the requirement should be to provide 'a high-level description of its business model and strategy', so that there is no implied requirement to disclose matters that are commercially sensitive. This will also aid in duplicate reporting with other regulatory filing requirements.

**3. 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?**

AIA NZ agrees. This will allow CREs that are part of an international group to align their modelling for physical risk scenarios.

**4. 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?**

AIA NZ agrees. It makes sense for CREs to focus on areas that are most important for their business. For some that will include net zero targets, but others may be focused on other targets, such as zero carbon.



**5. Do you have any views on the defined terms as they are currently proposed?**

No.

**6. The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:**

*a) Do you agree with the proposed first-time adoption provisions? Why or why not?*

AIA NZ agrees with the first-time adoption provisions proposed. Entities should have the option to begin by providing qualitative information then move on to providing more quantitative information as the sophistication and methodologies improve over time. We do query how this applies to the requirement to disclose 'actual financial impacts' (paragraph 5(c)) which would appear to require quantitative information.

*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.*

AIA NZ considers that additional first-time adoption provisions would be appropriate, including:

- Paragraph 3(c) and 3(d). Entities that have not completed a scenario analysis which fully complies with the standard should be able to disclose their progress towards conducting such analysis.
- Paragraph 5(b), which requires the disclosure of 'actual' impacts of climate-related risks. Our concern is that entities may not have a complete understanding of actual impacts by the end of the first accounting period. We suggest this is limited to 'potential' impacts.

*c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?*

**7. Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?**

*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.*

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?*

It would be helpful to have further clarity around how to address investments under scope 3. For example, AIA NZ uses a combination of direct and non-direct investments. There can be multiple layers of fund managers and the asset allocation may change frequently. As noted above, this presents a challenge in terms of being able to influence the assets invested in, as well as measuring and reporting quality data.

*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?*



Some of the disclosures go beyond the TCFD and TRWG recommendations. For example, 8(e) the source of emissions factors and global warming potential and 8(f) summary of specific exclusions. We recommend removing such additional disclosure requirements to ensure alignment with international reporting standards.

We also note that some metrics may be time intensive to quantify, but not as material to the business (e.g. the percentage of business assets or activities vulnerable to physical risks). It may also be inaccurate depending on the ability to capture and interpret data. In this circumstance we suggest that an entity should be able to not disclose certain information but clearly explain the reasons why.

- 8. 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?**

We agree with this approach. The all-sector requirements are already comprehensive. Some of the TCFD recommendations are focused on the general insurance sector and will not be as relevant for life and health insurers.

- 9. 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?**

Scope 3 emissions could be challenging to quantify. As noted above, reporting Scope 3 emissions in relation to investments will be particularly difficult. AIA NZ will need to rely on third parties to provide the analytics, and those third parties are also at varying stages of preparation and ability to capture and provide the information required data for climate-related disclosures. If those entities do not have their own disclosure requirements or report voluntarily, it could be very resource intensive to obtain all the required information.

- 10. 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?**

No.

- 11. Do you have any views on the defined terms as they are currently proposed?**

No

- 12. 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?**

In AIA NZ's view, the Metrics and Targets section of the standard should be subject to first-time adoption provisions.

Some of the metrics in Table 6, point 4 (page 32) would be challenging to quantify without completing the scenario analysis, for example, the percentage of business vulnerable to transition risk or climate-



related opportunities. This doesn't align with being able to use a qualitative approach to scenario analysis for the first disclosure. This may be addressed by the disclosures at paragraph 12 in terms of the level uncertainty, but we would appreciate further guidance here.

**13. The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?**

AIA NZ agrees. A higher level of assurance would result in additional compliance costs to evidence measurement. This would be better spent on achieving quality outcomes.

**14. 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?**

We do not think the definition of materiality should expressly refer to 'the long term'. The amount of uncertainty increases the more distant the time horizon. Assessing what is material to a primary user's decisions over the long-term is very difficult and will not necessarily result in meaningful disclosure for primary users. For example, 'long-term' in the context of life insurance is many decades, but that is not the case for other entities.

**15. Do you have any other comments on the proposed materiality section?**

No.