

SUBMISSION



Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)

Fletcher Building Submission to the External Reporting Board

May 2022

For comment, please contact: investor.relations@fbu.com

Submission on Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)

Thank you for the opportunity to comment on the External Reporting Board's *Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures, Strategy, and Metrics and Targets Consultation Document (NZ CS 1)*.

Fletcher Building is a leading building products, construction, and distribution business with carbon emissions reduction and climate risk management as core parts of our business strategy. We support the New Zealand government's goal of achieving transparency in business reporting on climate-related issues across the New Zealand economy.

We are in the process of adopting the Task Force on Climate-related Financial Disclosures, and we are broadly supportive of the adoption of recommendations from the TCFD as outlined by the External Reporting Board (XRB). We have however outlined our views below regarding the implementation of these requirements to ensure there are no unintended consequences for Fletcher Building as we progress with our sustainability programme.

Response to specific questions in the Strategy, and Metrics and Targets Consultation Document:

Strategy

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

We agree that the disclosure is required, as this aids the understanding of how climate-related matters link into the business model and strategy. However, we do not believe it is important that the information is standalone, it could be referenced to pre-existing publicly available information.

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?

We disagree and believe that a specific higher physical risk scenario should be prescribed. This will enable comparability across New Zealand entities which we believe is of key importance to users and helps ensure comparable scenarios are presented across different businesses and sectors. Entities will spend less time deciding what scenario/s to use and more time will be spent assessing the impacts of such a scenario. In order to achieve a high level of comparability we also suggest that an indication of modelled timeframes to be used would be helpful.

However, where entities have already started their scenario analysis we suggest due to the time and costs involved, that there is a first-time adoption provision for such entities and that a prescribed scenario is only required from a certain date, perhaps for example the second climate statement report.

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?

We support this approach, as a requirement to do so may force entities into committing to unachievable targets for their particular entity or industry, particularly for those at the early stages of such analysis. As reporting, and indeed government regulation, on climate-related matters evolves so may this thinking.

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?

We broadly support the first-time adoption provisions. The rationale to start with more qualitative information, before moving to more quantitative disclosures, makes sense and will allow capability as well as capacity within entities and New Zealand to develop.

(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.

We have no specific comments on this point.

Metrics and Targets - Questions to consider

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 the approach to not specifying industry-specific metrics. As an entity that operates across multiple industries, we believe that being overly prescriptive would be impractical, however we support that guidance on such matters would be useful.

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?

We agree that value chain emissions should be included, however at present, there are impediments to measuring value chain emissions with a high degree of accuracy. For our business it is difficult to obtain measured emissions data for the embodied emissions in materials, and emissions from overseas suppliers. Estimating downstream emissions from use of sold products also presents a challenge for us. A further impediment is the ability to consolidate emissions across a large and very diverse supply chain.

It is unclear when it will become possible to measure these emissions more accurately. We expect that the quality of data will improve over time, with this largely dependent on our suppliers ability to disclose their own Scope 1 and Scope 2 emissions, particularly if not legislated in the jurisdictions they operate.

Whole-of-life assessments such as Environmental Product Declarations are an important source of information for us, and for materials these provide a robust and validated assessment of the embodied carbon. Assessing scope 3 emissions using methods such as applying standard factors based on spend will generally reflect the quantum of value chain emissions and is therefore, we believe, valuable information to disclose even if the accuracy of measurement is not initially high.

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 concerns or observations to note.

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

From our reading of the consultation we understand that all comparative information will be subject to the first-time adoption provision and will not be required to be disclosed in the first climate statement. However, the requirements in year two are unclear. Per Section 7.3, two years of comparative information are required which means that information from the year prior to adoption is required to be disclosed (i.e. year one comparatives). We suggest amending the provision to note that in year two only one year of comparative information is required, effectively setting the first year climate report as the base.

We believe for some metrics (for example cross-industry metrics), the reporting of two years of comparative data in the second climate statement could be complex and costly for first time reporters, providing limited value to users. Where metrics have not been reported to the market before adoption of NZ CS 1, we believe that using the metrics in the year of adoption as a base is sufficient and will help inform forward-looking analysis and decisions.

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

We agree that the minimum level required should be limited assurance.

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 support this definition of material information.

We are also in support of the double materiality standard. We think that assessing the materiality of an organisation's impact on climate change would help to provide a level playing field between organisations with significant business operations located in New Zealand, and organisations that do not have significant business operations in New Zealand but do have a significant GHG emission impact for consumers in New Zealand (i.e. imported products and materials), or that are in sectors which have a significant impact on climate change. We think that this is a particularly important consideration in relation to the GHG impact associated with materials used in New Zealand. As a major New Zealand based business that has set a Science-based Target for GHG reduction, we are

fully and publicly committed to decarbonising within the industries we operate, and reporting our emissions, and risks and opportunities associated with climate change. However, if the same level of disclosure is not required for other businesses, either in similar industries or with a similar impact on emissions, this would lead to a lack of transparency in disclosure between suppliers of the same goods in the same market, and prejudice New Zealand based manufacturing operations with reporting obligations.

Other Comments

The International Sustainability Standards Board (ISSB), as established at COP26, have issued an exposure draft for climate-related disclosures, with feedback on the consultation closing on 29 July 2022. We suggest that the XRB consider this consultation and reflect any additional matters not already covered in NZ CS1 in the exposure draft so the XRB can ensure that NZ CS 1 is future proofed by reflecting emerging international regulatory requirements on climate-related disclosures. In this regard, the Global Sustainability Standards Board (GSSB) have already formally announced their work programme coordination with the ISSB on the matter of sustainability reporting, reflecting the importance of collaboration. This approach will also reduce the amount of additional reporting that is required for NZ issuers as they will be able to meet both disclosure regime requirements with one set of disclosures.

Conclusion

Should you have any questions or require clarification please feel free to contact us at Fletcher Building Investor Relations - E-mail: investor.relations@fbu.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Bevan McKenzie', written in a cursive style.

Bevan McKenzie
Group Chief Financial Officer

About Fletcher Building

Fletcher Building is one of New Zealand's largest listed companies.

Our roots go back to 1909, when James Fletcher built his first house with Albert Morris in Dunedin. From those humble beginnings we today employ around 15,000 people across New Zealand, Australia and the South Pacific. We employ over 9,000 people throughout New Zealand and make a significant contribution to both the national economy, and many regional economies.

We define our purpose as *Improving the world around us through smart thinking, simply delivered*. We are driven through efforts to create a better more sustainable world. We want to be smart and innovative in all we do, making our customers' lives easier in the process. Fletcher Building builds homes, buildings and infrastructure that creates communities, improves productivity, and contributes to the quality of life for people living and working in cities and regions across New Zealand, Australia and the South Pacific.

Our impact spans the full construction value chain. We operate businesses from resource extraction, product manufacture and distribution, through to property development and infrastructure construction. The value we add to the New Zealand economy has been calculated at \$1.3 billion and our contribution to GDP is \$1.5 billion¹.

Fletcher Building is dual listed on the NZX and ASX and operates through six divisions – Building Products, Distribution, Concrete, Residential and Development, Construction, and Australia.

¹ NZIER, Building New Zealand, Fletcher Building's economic contribution, June 2018