

02 May 2022

April Mackenzie  
Chief Executive  
External Reporting Board

Tēnā koe April

**RE: Climate-related Disclosures Consultation: NZCS1**

Thank you for the opportunity to provide ACC's feedback on the *Climate-related Disclosures: Strategy, and Metrics and Targets Consultation Document, NZ CS 1*.

**Background**

As a Crown Entity, ACC is committed to supporting the New Zealand Government in achieving its carbon reduction objectives and international commitments. In August 2020, ACC released our Climate Change Framework with the aim to be proactive in leading New Zealand's commitment to net zero emissions by 2050, including supporting efforts to limit average temperature rise to less than 1.5 degrees above pre-industrial levels. In October 2021 we published climate related disclosures in our Annual Report using the TCFD framework and have registered as a "TCFD supporter".

**Feedback**

ACC is supportive of the Climate-related Disclosures and outlines specific feedback in the section below.

Nāku iti noa, nā



John Healy  
**Chief Financial Officer**  
Accident Compensation Corporation

Overall, we see great benefits in the principle-based approach. We do, however, feel it is important to distinguish between the operational part of business and Asset Owners.

**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.**

It is likely to be useful. It may, however, be difficult to compare organisations.

Preparing the disclosures should further encourage climate reporting entities to consider the impact and potential impact of climate change risks and opportunities for their business model, and then provide such insight to the primary user.

However, ACC has some key areas of concern:

- Many limitations and variabilities remain for important areas such as data availability and quality, which will limit comparability across organisations and sectors.
- Information requirements will depend upon who the primary user is. So, for example, the information relevant to the primary user of a listed entity in the energy sector is unlikely to be the same as the information relevant to the primary user of Crown Financial Institution disclosures. We feel it is important to accommodate this difference and to distinguish between the operational part of a business and its Asset Owners.
- Trying to estimate the potential impacts of a range of possible scenarios requires numerous assumptions. The level of confidence in such impacts will decline as confidence in the underlying assumptions reduces and the further out a forecast period goes. Furthermore, using such results to estimate the impact on an organisation's projected financial performance, financial position and cashflows could introduce spurious accuracy. Without sufficient understanding of the uncertainties, a user could place more reliance on the output than confidence levels justify and then potentially draw conclusions that should not be made.

**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?**

The treatment of investment portfolios is ambiguous. Inclusion of Scope 3 emissions raises issues of unreliable data and significant double counting of emissions.

Guidance for investment portfolios could reference PCAF or something similar.

**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?**

We do not feel it adequately accommodates the disclosure of investment portfolios.

As stated above, in those sections that are prescriptive, we feel it would be beneficial to explicitly accommodate those areas where the needs of the primary user are different (e.g. when the primary user is not an investor) and or what can be disclosed with a high degree of confidence is materially limited by data or information availability (e.g. scope 3 data for many sectors).

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

No. It is not clear this will add material value over and above what has already been asked. In particular, the description of how identified Risks and Opportunities are or are expected to impact the business model and strategy, in the above section.

**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?**

There are comparability advantages in prescribed scenarios. However, mandating scenarios could risk the loss of relevant information. That is, transition and physical risks, and scenario impacts may differ by sector and organisation. Allowing organisations to choose the scenarios most relevant to them may provide information and insight which might otherwise be lost.

Balancing this, perhaps a band could accommodate flexibility while affording more consistency in reporting?

**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?**

Transition plans should reference interim targets. There is little benefit tying them to long term targets.

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

Many of the defined terms largely reference operational businesses and are not practically applicable to investment funds.

**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?**

Yes, agree with this approach.

**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.**

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

How far along we are along the path to being able to respond to the disclosure, and any material information that has materialised along this pathway.

**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?**

Largely.

It does not address factors such as offsets or emissions avoided, but perhaps this is assumed to lie with the standards the CRE chooses to report against. With respect to investment portfolios, this also applies to, for instance, how shorts and derivative exposure will be treated in the calculations.

**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?**

ACC's preferred approach is the high-level guidance. There are many uncertainties remaining, data gaps and work to be done before confirming an appropriate and standardised approach, so flexibility is valuable.

**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?**

It seems reasonable to allow the flexibility in this rapidly developing area.

Financed emissions guidance is limited. Perhaps stronger reference to PCAF, who TCFD refer to, could provide more guidance in this area.

**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?**

The ability of asset owners to measure the scope 3 emissions in their portfolio relies upon all their portfolio companies measuring and reporting, with accuracy and consistency, their scope 3 emissions, which feels a reasonable distance away.

Currently, scope 3 data is not reliable and is not reported by many global businesses. Investors could use estimates from third party providers, but these are likely to be inconsistent and potentially wrong.

From a corporate perspective (rather than an asset owner perspective) there are challenges in both obtaining data from suppliers in the value chain and determining which emissions sources to measure from a cost benefit perspective (for example, in determining the emissions attributable from outsourced services like third party service providers). The additional challenge is the potential inclusion of scope 3 emissions directly related to customer activities. At present, reducing these emissions could directly reduce service to customers. For example, there may be limited alternatives to reduce emissions in relation to clients flying, other than reducing the volume of travel which could directly adversely impact the service to customers.

**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?**

Nothing more than what we expressed for the strategy section.

**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?**

If first time adoption provisions are too flexible, it may defeat the purpose of reporting.

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

Yes - climate reporting has many variables, assumptions and unknowns and limited assurance is appropriate.

**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?**

The definition is similar to what International Financial Reporting Standards are proposing. From this aspect it makes sense to have alignment.

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

No