

Aotearoa New Zealand Climate Standards

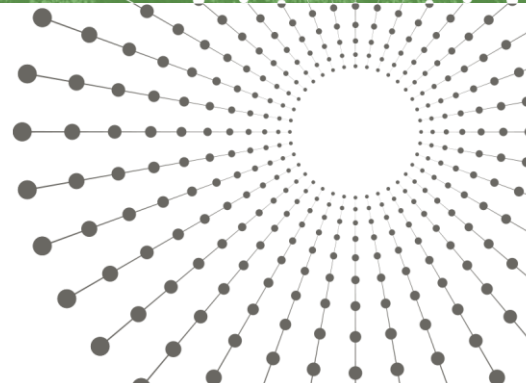
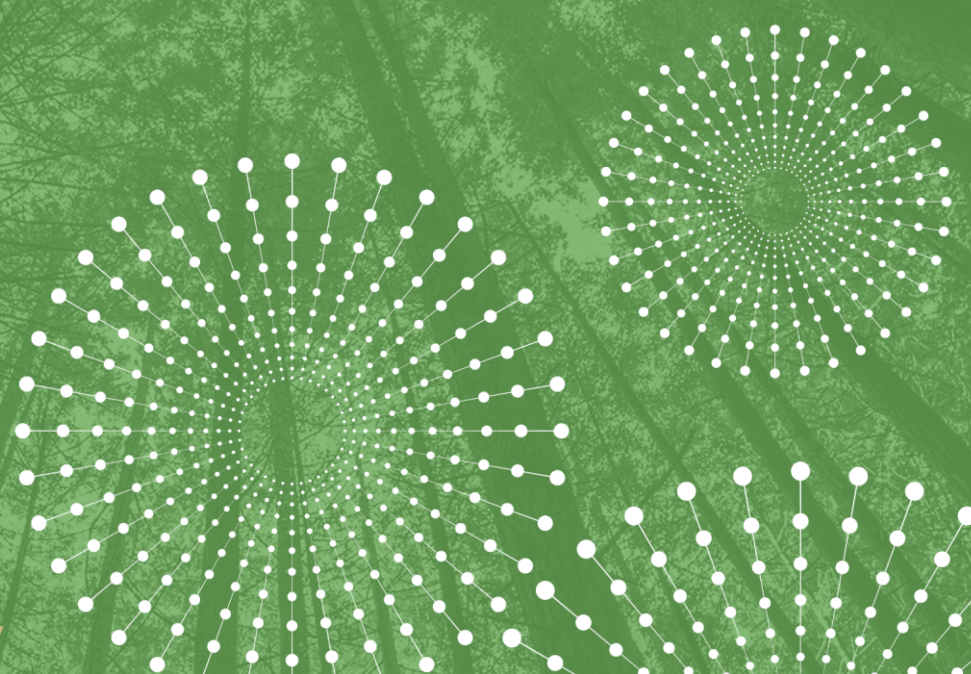
What we heard

Strategy, and Metrics and Targets sections of NZ CS 1

Consultation feedback



June 2022



Consultation Document

Stakeholder feedback from our March 2022 consultation

The External Reporting Board (XRB) is currently consulting on the proposed contents of the forthcoming climate-related disclosure framework. In March 2022, we provided the proposed sections of Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1) on Strategy, Metrics and Targets, and level of assurance, and the Materiality section of Aotearoa New Zealand Climate Standard 3: *General Requirements for Climate-related Disclosures* (NZ CS 3) for initial [feedback](#).

Submission responses

We received 66 written responses to the consultation document (Figure 1). We also considered informal responses from social media and events, with over 1000 people participating in events. Formal written responses on the consultation document can be viewed [here](#).

As with the feedback provided on the XRB's previous consultation in October 2021, close international alignment was a key theme. There was also a notable increase in references to the work of the International Sustainability Standards Board (ISSB).

Respondents encouraged the XRB to be ambitious (for example, in relation to transition planning), but also identified areas that would be a stretch for some climate reporting entities (CREs), particularly those that had not yet started on their climate reporting journey. The XRB is working through the hundreds of comments and suggestions on specific aspects of the proposed requirements and is grateful for the effort that went into

the submissions, particularly given the challenges many respondents faced with regards to Covid-19.

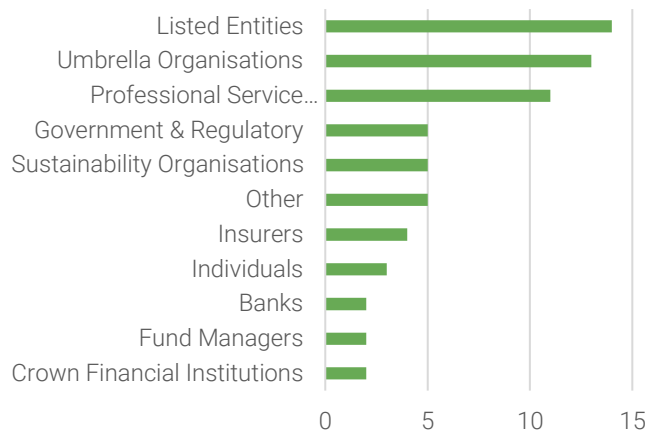


Figure 1: Who we heard from

About this feedback document

This document describes feedback from formal responses received on the proposed Strategy and Metrics and Targets sections, and level of assurance requirements, of NZ CS 1, and on the definition on materiality in NZ CS 3. Given the short timeframe between now and the exposure draft of the entire

climate-related disclosures framework, this document describes feedback at a high level. More detailed discussion of the XRB's analysis of and response to stakeholder feedback will be provided in each exposure draft's basis for conclusions. The exposure drafts will be released on **28 July 2022**.

Strategy

Summary of feedback

We received 46 submissions relating to Strategy, with significant support for the overall direction of the proposed disclosures. The topics we received the most feedback on were the defined terms, the inclusion of a standalone disclosure on business model and strategy, the number of scenarios, and the specificity around the higher physical risk scenario. We also received a substantial amount of feedback on the proposed first-time adoption provisions.

Business model and strategy

About 75% of those responding directly to the question about whether a standalone description of an entity's business model and strategy was a useful disclosure agreed that it would be.

"We agree that a description of an entity's business model and strategy is necessary to assist primary users in determining which organisations are more prone to climate-related risks and opportunities within specific sectors. We endorse this standalone disclosure" (Steel and Tube).

Several respondents noted that this information would already be published by an entity, and so could be incorporated by cross reference, and that it should be high level to avoid commercial sensitivity. Many noted the definitions should be removed.

Scenario analysis

There was strong support for the scenario analysis disclosures in general, including the requirement to disclose methodologies and assumptions to enhance comparability, and the XRB's encouragement of sector-level scenario analysis.

"[We] agree that industry sectors should be actively encouraged to work together to create sector-level scenario analysis before the standard comes into effect" (Institute of Directors).

Number of scenarios and temperature outcomes

Many respondents wanted to see more scenarios disclosed against, and suggested changes to ensure the higher physical risk scenario was sufficiently challenging given the current trajectory of global emissions. Others preferred a more flexible approach. There was a strong desire for consistency and comparability to the greatest degree possible.

"The Guardians supports the prescription of three scenarios as standard" (Guardians of New Zealand Superannuation).

"NZSA prefers that organisations are free to determine their own scenarios, leaving scope for investors and other primary users to judge the credibility of those scenarios as part of their capital allocation decisions" (New Zealand Shareholders Association).

"NZBA members would prefer one set of mandated temperature increase scenarios to encourage comparability and give certainty to primary users" (New Zealand Bankers Association).

"It is not necessary (or necessarily beneficial) to prescribe which >2 degree scenarios should be modelled. Flexibility encourages businesses to think about 'what happens when climate change becomes significant' without prescribing the level of climate change" (Toitū).

Transition and adaptation planning

Most respondents supported transition and adaptation planning disclosures. Some wanted principles-based requirements, whereas others argued more prescriptiveness with regard to disclosure of 1.5C/net zero aligned targets. Others wanted to see an integrated plan covering both transition and adaptation, to give equal importance.

"NZ's government has committed to the Paris Agreement, and we feel every fund manager operating in this country should have a transition plan tied to the key aspects of the agreement" (KiwiWealth).

Metrics and Targets

Summary of feedback

We received 59 submissions relating to Metrics and Targets, with over 200 comments identified on particular topics. The topics we received the most feedback on were greenhouse gas (GHG) emissions and industry-specific metrics.

GHG emissions

Comments relating to GHG emissions disclosures were varied. 40% were supportive of the proposed requirements, 35% suggested amendments or additional disclosures (including to definitions), 15% wanted the XRB to specify a measurement standard (e.g., GHG Protocol or ISO14064), and 10% disagreed with the proposed requirements.

"We are in support of disclosure of GHG emissions, both total produced by funds and intensity. This would also help quell greenwashing concerns by customers if combined with decarbonization investor engagement outcomes (both qual and quantitative)" (KiwiWealth).

"We would be supportive of the XRB prescribing a standard(s) for how climate reporting entities ("CREs") measure and report their greenhouse gases so that there is comparability between companies" (Retirement Villages Association).

"the GHG emissions disclosures...should focus on larger climate reporting entities with compliance by smaller listed entities voluntary" (Chapman Tripp).

Industry-specific metrics

Most comments (80%) supported the XRB's decision not to specify industry-specific metrics.

"Mercury supports the XRB's proposal not to specify industry-specific or entity-specific metrics. It is appropriate to leave this detail for CREs to determine, as relevant to their business and with an eye to what is most useful, material, and relevant for primary users" (Mercury).

Targets

Many stakeholders requested further definitions in relation to targets, and in particular, the concept of science-based targets.

"This section refers to "science-based" targets. We note that the definition and application of "science-based" has evolved over time and may be interpreted in different ways dependent on the context in which it is applied. BNZ submits that this term should be defined in accordance with the Science Based Targets Initiative to ensure consistency of application" (BNZ).

GHG emissions report

There was qualified support, and queries regarding, the requirement to prepare a GHG emissions report to support the GHG emissions disclosures.

"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" (Fonterra).

"We are concerned that paragraph 9 requires the preparation of a separate greenhouse gas emissions report, which goes beyond what would be expected under a disclosure standard" (Chartered Accountants Australia and New Zealand).

Other topics

Many specific comments were received, including:

- the suitability of certain cross-industry metrics;
- whether to specify a consolidation approach for GHG emissions disclosures;
- the need to identify sources of emissions factors;
- where restatement is allowed and/or necessary; and
- the disclosure of methodologies and assumptions.

Level of assurance

Summary of feedback

The XRB received 43 submissions on the topic of the level of assurance (including many comments relating to assurance in general). The majority (75%) supported the proposed level of assurance, with a further 10% providing qualified support.

Support for limited assurance

Most respondents agreed that setting the minimum level of assurance as limited was an appropriate starting point for the climate-related disclosures regime.

"We agree that limited, third-party assurance is an appropriate minimal level of assurance for the initial version of NZ CS 1" (CDP).

"We agree with setting 'limited' assurance as the minimum level for greenhouse gases. 'Reasonable' assurance would be too much of a hurdle for many scope 3 emissions and the costs may outweigh the benefits" (RBNZ).

Several also specifically commented that they supported the level of assurance being revisited.

"We note and agree with the XRB proposal that this level of assurance be reviewed at a subsequent date once GHG emission reporting and assurance is embedded within the New Zealand reporting landscape (i.e., next few years)" (Grant Thornton).

"We agree that initially this is the most pragmatic and reasonable approach. We also agree that as disclosures and standards (as well as global standards) progress, this position should be reviewed again in the future and potentially moved to reasonable assurance if it makes sense to do so" (PwC).

While supporting limited assurance, some submitters noted the importance of clarifying the different levels of assurance of non-financial and financial reporting.

Qualified support

Some respondents supported limited assurance but included qualifications to their support, for example, that scope 3 emissions should be excluded from assurance.

"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" (Deloitte).

Require reasonable assurance for scope 1 and 2 emissions

Of those entities that disagreed with the proposals, the majority wanted a higher level of assurance, especially for scope 1 and 2 emissions.

"We consider that "reasonable assurance" should be expected for Scope 1 and Scope 2 emissions information. Scope 1 and Scope 2, by definition, are "direct" emissions and entities should be able to obtain reliable information" (Office of the Auditor General).

"Keeping in mind that these are New Zealand's largest entities, and many are already obtaining some level of assurance, we consider there could also be merit in the XRB considering mandating a different level of required assurance for Scope 1 and 2 (being reasonable assurance) versus Scope 3 emissions (being limited assurance) to further demonstrate best practice by our market leaders" (KPMG).

Other suggestions included only requiring larger CREs to report and obtain assurance over GHG emissions disclosures.

Materiality

Summary of feedback

We received 45 submissions relating to materiality. Approximately 70% agreed or partially agreed with the XRB's definition (including 20% who agreed but wanted the XRB to move towards 'double materiality' in the future). 20% did not agree with the definition, and 13% did not agree specifically because they wanted a double materiality definition implemented immediately.

Support for the definition

Those that supported the definition of materiality focused largely on two main factors. First, international alignment.

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

Second, agreement to start with enterprise value as a more confined approach to suit the needs of many CREs beginning their climate reporting journey.

"The NZX supports the XRB's definition of materiality through the lens of enterprise value (rather than double-materiality), which will in conjunction with first-time adoption standards, provide appropriate recognition of the effort that will be involved for many climate reporting entities in complying with the incoming regime" (NZX).

For those that supported but wanted double materiality in the future, the main feedback related to understanding the desire for international alignment at present, but awareness that moving beyond enterprise value was a likely future direction.

"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" (Deloitte).

Arguments for change

Arguments against included whether the general test for materiality from [NZ IAS 1](#) should be applied (so that one single test for materiality is applied across both climate and financial statements). Others wanted more specific definitions of materiality in relation to particular disclosures, and others disagreed because of the inclusion of longer-term time horizons.

"This definition is fairly meaningless in the context of retail investors – we do not expect they will make assessments of enterprise value across time horizons" (Boutique Investment Group).

However, the main comment was about the scope of the definition—that it was too narrow either in all contexts or for some types of CRE, or out of step with international definitions.

"The XRB should reconsider 'materiality', given the emerging global view that it goes beyond a narrow interpretation of 'enterprise value'" (Responsible Investment Association of Australasia).

"We acknowledge the XRB's wish to align with ISSB, however we do not believe the enterprise value approach is fit for purpose in the public sector context" (Auckland Council).

Finally, others argued that the proposed requirements do include information of the impact of an entity on climate change, and therefore double materiality should be explicitly included in the definition.

"The requirement to disclose scope 1, 2 and 3 gross GHG emissions and a transition plan (both of which LCA NZI strongly support) by design requires a CRE to disclose any material risk that a CRE's business is contributing to climate change. Given that inevitability, LCA NZI submits that the XRB should, at the outset, introduce the concept of double materiality to its definition of material" (Lawyers for Climate Action NZ Inc.).

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