Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Aotearoa New Zealand Climate Standard 3

General Requirements for Climate-related Disclosures (NZ CS 3)

Exposure Draft

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EXPOSURE DRAFT

Aotearoa New Zealand Climate Standard 3

General Requirements for Climate-related Disclosures (NZ CS 3)

Issued [date]

This [draft] Standard was issued on [date] by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

This [draft] Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date in Paragraph B1 of Appendix B.

In finalising this [draft] Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard has been issued as a result of the New Zealand Government enacting legislation to require certain entities to prepare climate-related disclosures.

ISBN

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[Draft] NZ CS 3 *General Requirements for Climate-related Disclosures* is set out in paragraphs 1-55 and Appendices A and B. All the paragraphs, including Appendices A and B, have equal authority. Terms defined in Appendix A are in *italics* the first time that they appear in the [draft] Standard. This [draft] Standard should be read in the context of its objective, the Basis for Conclusions, and [draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards.*

Objective

1. The objective of this [draft] Standard is to establish principles and general requirements to enable the provision of high-quality *climate-related disclosures*.

Scope

2. This [draft] Standard applies to entities which are required by the Financial Markets Conduct Act 2013 to prepare *climate statements* or *group climate statements* that comply with the *climate-related disclosure framework*.
3. Any entity that elects to or is otherwise directed to prepare climate statements or group climate statements is encouraged to apply all the requirements of *Aotearoa New Zealand Climate Standards*.[1]
4. This [draft] Standard does not apply to an *interim period*.

Fair presentation

5. An entity must fairly present its climate-related disclosures. Fair presentation requires an entity to disclose information in accordance with the principles in this [draft] Standard and the disclosure objectives and requirements in Aotearoa New Zealand Climate Standards.
6. Applying Aotearoa New Zealand Climate Standards is presumed to result in climate-related disclosures that achieve a fair presentation. When compliance with the specific requirements in Aotearoa New Zealand Climate Standards is insufficient to show a fair presentation, additional disclosures must be provided.
7. Aotearoa New Zealand Climate Standards contain disclosure objectives to assist entities in determining whether to disclose additional information. However, when disclosing additional information, an entity must ensure that relevant information is not obscured by the inclusion of immaterial detail.
8. When applying Aotearoa New Zealand Climate Standards, an entity, after it has considered all relevant facts and circumstances, must decide how to aggregate or disaggregate the information in its climate-related disclosures. For example, information about climate-related risks and opportunities might need to be disaggregated, such as by geographical location, business unit or type of asset. An entity shall not reduce the understandability of its climate-related disclosures by obscuring material information with immaterial information or by aggregating material items that are dissimilar.

Principles

9. To achieve fair presentation, an entity must apply the principles provided in Table 1 and Table 2 when preparing and presenting climate-related disclosures.
10. An entity may encounter tension in the application of the principles. For example, an entity may update a metric to meet the comparability principle, which could then result in a conflict with the principle of consistency. Tension can also arise within a single principle. For example, disclosures must be verifiable, but assumptions made about future-oriented disclosures often require significant judgement that is difficult to verify. This means that, in practice, all the principles or qualitative characteristics may not be fully achieved and a balance or trade-off between certain of them may be necessary. An entity must consider the needs of its primary users and the objectives of climate-related disclosures when making judgements about trade- offs between the principles.

[1] For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

Table 1: Principles — Information

11. This table describes the principles (also known as qualitative characteristics) that makes information in climate-related disclosures useful to primary users.

Principle	**Explanation in the context of climate-related disclosures**
Relevance Information is relevant where it is capable of making a difference in the decisions made by primary users.	Climate-related disclosures are more relevant if the information is specific to an entity. For example, where the disclosures convey anticipated impacts of climate-related risks and opportunities that are specific to an entity's markets, business model, corporate or investment strategy, financial statements, and future cash flows.
Balance Information is balanced if is portrayed in a manner that is free from bias or is not manipulated to make it more likely that primary users will receive that information favourably or unfavourably.	Climate-related disclosures are balanced when they do not overemphasise positive news or impacts, in a manner that could be interpreted as 'greenwashing'. Balanced narrative explanations require that climate-related risks as well as climate-related opportunities are portrayed in a manner that is free from bias.
Accuracy Information is accurate if it is free from material error or misstatement.	Climate-related disclosures are based on estimates and judgements of the current position as well as future expectations and uncertain pathways. Accurate information implies the entity has implemented adequate processes and internal controls to ensure information is free from material error or misstatement. However, in this context accuracy does not mean certainty of outcome. Estimates should be presented with a clear emphasis on their possible limitations and related uncertainty.
Verifiability Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it.	Climate-related disclosures should be defined, collected, recorded, and analysed in such a way that the information reported is verifiable. In the context of future-oriented information, verifiability means that the assumptions used can be traced back to their sources. Future-oriented disclosures will inherently involve the entity's judgement (which should be adequately explained). To the extent possible, climate-related disclosures should be based on objective data and use best-in-class measurement methodologies, which may include common industry practice as it evolves.
Comparability Information is comparable if it enables primary users to identify and understand similarities in, and differences among, items.	Unlike the other principles, comparability does not relate to a single item. A comparison requires at least two items. Information is more useful to primary users if it can be compared with: (a) information provided by the entity in previous reporting periods; and/or (b) information provided by other entities, in particular those with similar activities or operating within the same industry. Climate-related disclosures are more comparable when they provide points of reference. For example, targets, a baseline, or an industry benchmark.

Principle	Explanation in the context of climate-related disclosures
Consistency Information is consistent if the same approach or method is used from reporting period to reporting period.	Consistent climate-related disclosures over time allows for inter-period comparisons and enables primary users to understand the development and/or evolution of how an entity is considering climate-related risks and opportunities.
Timeliness Information is timely when it is available in time to be capable of influencing primary users' decisions.	Where possible, climate-related disclosures should be available at the same time as an entity's financial reporting. This enables primary users to make more rounded assessments.

Table 2: Principles — Presentation

12. This table describes the principles (also known as qualitative characteristics) that makes the presentation of climate-related disclosures useful.

Principle	Explanation in the context of climate-related disclosures
Understandability Presenting information in a clear and concise manner.	Climate-related disclosures should be written with the objective of communicating information to primary users. The disclosures should be sufficiently granular to balance the information needs of sophisticated users, but also provide less-detailed information for those who are less sophisticated. The clearest form of disclosure depends on the nature of the information and might sometimes include tables, graphs, or diagrams. For climate-related disclosures to be concise they should avoid generic (or boilerplate) information and unnecessary duplication. Climate-related disclosures should include straightforward explanations of issues. Terms used in the disclosures should be explained or defined for a proper understanding by primary users.
Completeness Presenting all information that is necessary for an understanding of the matter that it purports to represent and does not leave out details that could cause information to be false or misleading to primary users.	Climate-related disclosures should be sufficiently comprehensive to allow primary users to assess future expectations and performance, and also evaluate actual performance relative to previously disclosed expectations. To avoid obscuring relevant information, disclosures should be eliminated if they are immaterial or redundant. However, where a particular risk or issue might be expected by primary users, but it is not considered material by the entity, it may, to achieve the principle of completeness, consider including a statement that the risk or issue is not considered to be significant. This will show the risk or issue has not been overlooked.
Consistency Presenting disclosures using consistent formats, language, and metrics from reporting period to reporting period.	Disclosures that are consistent over time will enhance communication with primary users. To allow for inter-period comparisons, climate-related disclosures should be presented using formats, narratives, and metrics that are consistent from reporting period to reporting period. It is recognised that, due to the developing nature of climate-related disclosures, there will be changes in metrics, narratives and formats. In these circumstances, any such changes should be explained.

Principle	Explanation in the context of climate-related disclosures
Coherence Presenting disclosures in a way that explains the context and relationships with other disclosures of the entity.	Coherence means presenting climate-related disclosures in a way that makes clear the linkages and connections between an entity's climate-related risks and opportunities and its governance, strategy, risk management and metrics and targets. Coherence will be more important if climate-related disclosures are presented in different locations within a document or are distributed across other disclosures of the entity. Coherence also requires an entity to present information in a way that allows primary users to relate information about its climate- related risks and opportunities to the entity's financial statements.

Location of disclosures

13. An entity may provide its climate-related disclosures in a standalone document or within another document (for example, its annual report or a sustainability or integrated report).

14. Where the climate-related disclosures are provided within another document, an entity must include a table within that other document, clearly identifying the location of the disclosures required by Aotearoa New Zealand Climate Standards.

Cross referencing

15. Disclosures required by Aotearoa New Zealand Climate Standards may be incorporated within an entity's climate-related disclosures by cross reference. This may include cross reference to another document or to an entity's website.

16. Disclosures included by cross referencing should comply with the principle of fair presentation in this [draft] Standard. In particular, disclosures included by cross reference should not make an entity's climate-related disclosures less understandable, complete or coherent.

17. If an entity applies cross referencing:
    (a) the disclosures must be made freely available to primary users at the same time as the main climate-related disclosures;
    (b) the disclosures must remain unchanged and available over time at the cross-referenced location;
    (c) the entity must identify the location of that information and explain how to access it; and
    (d) the entity must ensure cross referencing is direct and precise as to the specific location of that information.

18. If information is included by cross reference, that information becomes part of the climate-related disclosures. This means that the information included by cross reference needs to comply with the requirements of Aotearoa New Zealand Climate Standards. It also means that the governance body that authorises the climate-related disclosures takes the same responsibility for the information included by cross reference as they do for the information included directly.

Climate statements relating to registered schemes

19. A manager of a registered scheme may be required by legislation to complete climate statements in relation to each separate fund of the scheme. To avoid unnecessary duplication this [draft] Standard allows for common information to be presented at a scheme level. For example, if the disclosures on Governance and Risk Management contain common information for each fund within a scheme, these may be presented at a scheme level.

Reporting entity

20. Except as otherwise required by legislation, an entity must prepare its climate-related disclosures for the same *reporting entity* as its financial statements.

21. If the reporting entity is a group comprising a parent and its subsidiaries, then climate-related disclosures are reported in respect of that group. However, a subsidiary may separately be a reporting entity and be required by legislation to prepare its own climate-related disclosures.

Value chain

22. Climate-related risks and opportunities relate to activities, interactions, and relationships and to the use of resources along an entity's value chain. When considering its exposure to climate- related risks and opportunities, an entity must consider the exposure of its value chain as well. Investments that an entity has in other entities, for example, associates and joint ventures, are also considered to be part of an entity's value chain.

Reporting currency

23. When currency is used as the unit of measure in an entity's climate-related disclosures, an entity must use the presentation currency of its financial statements.

Reporting period

24. An entity must prepare its climate-related disclosures for the same *reporting period* as its annual financial statements.

25. When an entity changes the end of its reporting period, resulting in a reporting period that is longer or shorter than 12 months, an entity must disclose the period covered by its climate- related disclosures and:

    (a) the reason for using a longer or shorter period; and

    (b) the fact that the amounts presented in its climate-related disclosures are not entirely comparable.

26. Information about transactions, other events and conditions that occur after the end of the reporting period, and before the date on which the climate-related disclosures are authorised for issue, must be disclosed if non-disclosure could reasonably be expected to influence decisions that primary users make on the basis of the climate-related disclosures.

Materiality

27. An entity must disclose all *material* information about its climate-related risks and opportunities as required by Aotearoa New Zealand Climate Standards. 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*.

28. Assessing whether information could reasonably be expected to influence decisions made by primary users requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

29. Materiality is an entity-specific aspect of relevance based on the nature and/or magnitude of the items to which the information relates. This [draft] Standard does not specify a uniform quantitative threshold for materiality or predetermine what would be material in a particular situation.

30. The application of the disclosure requirements in Aotearoa New Zealand Climate Standards are presumed to result in material information in most cases. However, if when applying the disclosure requirements to its own specific facts and circumstances, an entity determines that the resulting information is not material, it need not disclose it.

31. An entity assesses whether information, either individually or in combination with other information, is material in the context of its climate-related disclosures taken as a whole.

32. An entity must apply judgement to identify the information about climate-related risks and opportunities that is material to an entity's circumstances at each reporting date. Because an entity's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances.

33. The application of judgement in assessing whether information is material involves both quantitative and qualitative considerations. It is recognised that a quantitative assessment is not always possible.

34. An entity ordinarily assesses whether information is quantitatively material by considering the size of the impact against measures of the entity's financial position, financial performance and cash flows, as these can impact the assessment of enterprise value. For example, the anticipated impact of increases in revenue from new products or services from climate-related opportunities, or the anticipated impact of cost increases from new regulatory requirements on an entity's financial performance may be of such a size it could reasonably be expected to influence decisions that primary users make on the basis of that information.

35. In some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of its size—a quantitative threshold could be material even if it is very small or zero. For example, greenhouse gas (GHG) emissions may be seen as a proxy for an entity's exposure to transition risk, and hence be expected to influence an entity's primary users' decisions regardless of the size of those emissions. Another example is that in some circumstances the lack of processes could be material information (such as, if a governance body does not have any reporting processes in place to ensure that it is informed about climate-related risks and opportunities).

36. An entity must consider the context in which it operates when making materiality judgements. Characteristics of the entity's context include, but are not limited to, an entity's geographical location, its industry sector, or the state of the economy or economies in which an entity operates. Entities operating in the same context might share a number of these qualitative factors. Moreover, these qualitative factors could remain constant over time or could vary. In some circumstances, if an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.

37. Material information could include, but is not limited to, information about an entity's impacts on the climate if those impacts could reasonably be expected to affect the entity's enterprise value. For example, if an entity has a negative impact on climate change, this may negatively impact its enterprise value due to subsequent regulatory action or social pressure. An entity is encouraged to think broadly about these possible feedback loops when it considers how its impacts on the climate could reasonably be expected to affect its enterprise value.

38. Information about a given class of risk may be material when taken in aggregate. For example, an entity might be exposed to several climate-related risks, each of which could cause the same type of disruption (such as disruptions to the entity's supply chain). Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

Comparative information, consistency of reporting, and restatement of comparatives

Comparatives for metrics

39. For each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information.

40. An entity must disclose an analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period.

Consistency

41. Presenting climate-related disclosures consistently from one reporting period to the next allows for inter-period comparisons and provides information about trends. If an entity changes what it discloses or how it presents its information, it must provide an explanation of those changes and of the effect on the current reporting period's climate-related disclosures.

42. If a metric or target is replaced, or the methodology used to calculate the metric or target is changed, the explanation provided must include why the replacement metric or target or the new methodology adopted provides more useful information.

Restatement of comparatives

43. An entity may change what it discloses in the current reporting period for several reasons. For example, to correct a material error, improve measurement methodology, use more current estimates or reflect changes in the nature of the activities of an entity. Restatements of comparative information enhances consistency of information between reporting periods, assisting primary users to assess trends. This [draft] Standard requires restatements only for material errors made in previous reporting periods (see paragraph 44) However, it permits restatement of comparative information for other reasons (see paragraph 45).

44. An entity must correct material errors made in previous reporting periods by restating the comparative information for any previous reporting period(s) in which the error occurred. The entity must disclose an explanation of the error and the change. If the error relates solely to narrative information, an explanation of the error must be disclosed. Corrections of errors must be made in the first climate statement or group climate statement authorised for issue after the discovery of the errors.

45. When deciding whether to restate comparative information for reasons other than for correcting material errors, an entity considers the needs of its primary users and should restate comparatives if this provides the most decision-useful information. A common example of restating comparative figures would be where a metric or target is redefined. Restatement in this case would provide the best information for a primary user to assess trends and progress of an entity. For example, an entity could redefine a GHG intensity metric to expand the emission sources in the calculation from scope 1 and 2 emissions only, to also include scope 3 emissions.

Methodologies, assumptions, and estimation uncertainty

46. The use of reasonable estimates is an essential part of preparing climate-related disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained. Disclosures about methodologies, significant assumptions and significant estimation uncertainty are essential to ensure primary users are provided with information to understand the amounts in an entity's climate-related disclosures.

47. An entity must provide a description of the methodologies and significant assumptions used to calculate or estimate amounts where they are not apparent, including the limitations of those methods.

48. An entity must identify amounts it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.

49. When deciding how much information to disclose in accordance with paragraphs 47 and 48, an entity must focus on those significant assumptions and other sources of significant estimation uncertainty that require an entity's most difficult, subjective or complex judgements.

Scenario analysis methodologies and assumptions

50. An entity must disclose the methodologies and assumptions underlying the climate-related scenarios used, and the scenario analysis process employed. The following information must be included when describing the methodologies and assumptions underlying the climate- related scenarios used, and the scenario analysis process employed:
    (a) the climate-related scenarios it has used, including:
        (i) a brief description of each scenario narrative;
        (ii) the time horizons considered, including endpoints and whether the endpoints are determined by a year or a temperature target;
        (iii) a description of the various emissions reduction pathways in each scenario and the key assumptions underlying pathway development over time, including the scope of operations covered, policy and socioeconomic assumptions, macroeconomic trends, energy pathways, carbon sequestration from afforestation and nature-based solutions and technology assumptions including negative emissions technology;
        (iv) an explanation of why the entity believes the chosen scenarios are relevant and appropriate to assessing the resilience of the entity's business model and strategy to climate-related risks and opportunities; and
        (v) the sources of data used to construct each scenario;
    (b) how the scenario analysis process has been conducted, including:
        (i) whether scenario analysis is a standalone analysis or integrated within the entity's strategy processes;
        (ii) the governance process used to oversee and manage the scenario analysis process, including the role of the governance body and management;
        (iii) if modelling has been undertaken, a clear description of what modelling was undertaken and why the model/s were chosen as the appropriate model/s; and
        (iv) which external partners and stakeholders are involved.

GHG emissions methodologies, assumptions and estimation uncertainty

51. An entity must provide a description of the methodologies and significant assumptions used to calculate or estimate GHG emissions, and the limitations of those methods. When choices between different methods are allowed, or entity-specific methods are used, an entity must disclose the methods used and the rationale for doing so.

52. An entity must describe significant uncertainties relevant to the entity's quantification of its GHG emissions, including the effects of these uncertainties on the GHG emissions disclosures.

53. An entity must provide an explanation for any base year GHG emissions restatements.

Statement of compliance

54. An entity whose climate-related disclosures comply with Aotearoa New Zealand Climate Standards must include an explicit and unreserved statement of compliance. All requirements must be complied with for an entity to state compliance with Aotearoa New Zealand Climate Standards.

55. The statement of compliance must be presented prominently within an entity's climate-related disclosures.

Appendix A
Defined terms

This appendix is an integral part of NZ CS 3 *General Requirements for Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

Aotearoa New Zealand Climate Standards	Standards issued by the External Reporting Board which comprise the climate-related disclosure framework.
climate statements	For the purposes of this [draft] Standard has the same meaning as 'climate statements' as defined in the Financial Reporting Act 2013.
climate-related disclosures	Disclosures about climate-related risks and opportunities that are useful to primary users when they assess, and make decisions about, an entity's enterprise value, including information about its governance, strategy and risk management, and metrics and targets.
climate-related disclosure framework	For the purposes of this [draft] Standard, climate-related disclosure framework has the same meaning as 'climate-related disclosure framework' as defined in the Financial Reporting Act 2013.
enterprise value	Market capitalisation of an entity plus the market value of the entity's net debt. It is determined by capital market participants, based on their estimation of the amount, timing and certainty of future cash flows spanning the short, medium and long term. Enterprise value reflects primary users' assessments of future cash flows, including the value attributed to those cash flows by primary users. Essential inputs in determining enterprise value include corporate reporting in financial statements, as well as reporting on climate-related risks and climate-related opportunities that are reasonably likely to affect the entity's business model over time (that is to say, affect revenue, costs, assets, liabilities, cost of capital and/or risk profile). The term captures the notion of expected value creation, preservation or erosion over time for an entity's primary users.
group climate statements	For the purposes of this [draft] Standard has the same meaning as 'group climate statements' as defined in the Financial Reporting Act 2013.
interim period	A reporting period shorter than a full year.
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.
reporting entity	An entity that is required, or chooses, to prepare climate statements or group climate statements.
reporting period	The period covered by climate statements or group climate statements.

Terms defined in Aotearoa New Zealand Climate Standards and used in this [draft] Standard with the same meaning

climate-related risks	The potential negative impacts of climate change on an entity. See also the definitions of physical risks and transition risks.
climate-related opportunities	The potentially positive climate-related outcomes for an entity. Efforts to mitigate and adapt to climate change can produce opportunities for entities, such as through resource efficiency and cost savings, the adoption and utilisation of low-emissions energy sources, the

	development of new products and services, and building resilience along the value chain.
climate-related scenario	A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Climate-related scenarios are not intended to be probabilistic or predictive, or to identify the 'most likely' outcome(s) of climate change. They are intended to provide an opportunity for entities to develop their internal capacity to better understand and prepare for the uncertain future impacts of climate change.
governance body	A board, investment committee or equivalent body charged with governance.
greenhouse gas (GHG)	The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO_2); methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF_3), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6).
management	Executive or senior management positions that are generally separate from the governance body.
metric(s)	A quantity indicative of the level of historical, current, and forward-looking climate-related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against targets over the duration of the period for which a target is set.
physical risks	Risks related to the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns, such as sea level rise.
primary users	Existing and potential investors, lenders and other creditors.
scenario analysis	A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. Engaging in this process helps an entity to identify its climate-related risks and opportunities and develop a better understanding of the resilience of its business model and strategy.
scope 1	Direct GHG emissions from sources owned or controlled by the entity.
scope 2	Indirect GHG emissions from consumption of purchased electricity, heat, or steam.
scope 3	Other indirect GHG emissions not covered in scope 2 that occur in the value chain of the reporting entity, including upstream and downstream GHG emissions. Scope 3 categories are purchased goods and services, capital goods, fuel-related and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold products, downstream leased assets, franchises, and investments.
target(s)	A specific level, threshold, or quantity of a metric that an entity wishes to meet over a defined time horizon in order to achieve an entity's overall climate-related ambition and strategy.

transition risks Risks related to the transition to a low-emissions, climate-resilient global and domestic economy, such as policy, legal, technology, market and reputation changes associated with the mitigation and adaptation requirements relating to climate change.

value chain The full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end of life. Relevant activities, resources and relationships include those in an entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which an entity operates.

Appendix B
Effective date

This appendix is an integral part of NZ CS 3 *General Requirements for Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

Effective date

B1. An entity must apply this [draft] Standard for annual reporting periods beginning on or after [1 January 2023].

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Basis for Conclusions on [draft] NZ CS 3 General Requirements for Climate-related Disclosures

This Basis for Conclusions accompanies, but is not part of, [draft] NZ CS 3 *General Requirements for Climate-related Disclosures.*

Introduction

BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing [draft] NZ CS 3 *General Requirements for Climate-related Disclosures* as part of the climate-related disclosure framework for Aotearoa New Zealand. [2]

Scope

BC2. The XRB Board has developed Aotearoa New Zealand Climate Standards primarily for those entities that are climate reporting entities (CREs) under the Financial Markets Conduct Act 2013 (the FMCA 2013). The CREs captured are large listed debt or equity issuers, large financial entities such as registered banks, licensed insurers, credit unions, building societies, and managers of registered managed investment schemes (MIS managers).

BC3. The XRB Board recognises that other entities may voluntarily apply this [draft] Standard. For example, asset owners will be requesting information on climate-related risks and opportunities from the companies they invest in, and these companies may look to Aotearoa New Zealand Climate Standards for how to disclose this information. Crown Financial Institutions may be directed to apply Aotearoa New Zealand Climate Standards via a letter of expectation from the Minister of Finance. There will also be entities which voluntarily decide to apply Aotearoa New Zealand Climate Standards as opposed to having been asked by their funders or owners.

BC4. The XRB Board encourages all entities which voluntarily adopt Aotearoa New Zealand Climate Standards to apply all the requirements of Aotearoa New Zealand Climate Standards. An entity must not describe its climate statements or group climate statements as complying with Aotearoa New Zealand Climate Standards unless it complies with all the requirements of Aotearoa New Zealand Climate Standards.

BC5. The XRB Board has the ability under the Financial Reporting Act 2013 to issue Aotearoa New Zealand Climate Standards that apply to interim periods. For the avoidance of doubt the XRB Board has clarified in paragraph 4 of NZ CS 3 that the Standards do not apply to interim periods.

Fair Presentation

BC6. The XRB Board considers fair presentation is the overarching principle. There is a presumption that Aotearoa New Zealand Climate Standards will result in climate-related disclosures being presented fairly. Additional disclosures may be necessary if Aotearoa New Zealand Climate Standards do not achieve fair presentation.

Principles

BC7. To underpin its requirements and help guide current and future development in climate-related disclosures, the XRB Board has developed a set of principles of high-quality reporting for climate-related disclosures. Such principles underpin the principle of fair presentation. Entities

[2] Note that some of the content in this Basis for Conclusions applies to the climate-related disclosure framework as a whole.

applying Aotearoa New Zealand Climate Standards will need to consider these principles when preparing climate related disclosures.

BC8. The principles in Tables 1 and 2 are largely consistent with other mainstream international disclosure frameworks. International frameworks employ a wide variety of terminology to refer to very similar, if not identical, concepts. For example, the label 'principles' is also referred to as 'qualitative characteristics', 'attributes', 'guiding principles', 'fundamental principles' and 'reporting principles'. The XRB Board has simply used the word 'principles'. For users of draft NZ CS 3 that are familiar with the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting, the XRB Board has also used the phrase 'principles (or qualitative characteristics)'.

BC9. The XRB Board has made a distinction between:

(a) Table 1: the principles that relate to the information (per se); and

(b) Table 2: the principles relating to the presentation of that information.

BC10. The XRB Board has separated the concepts of comparability and consistency, as does the Task Force on Climate-related Financial Disclosures (TCFD). During the implementation period, it is easy to imagine a preparer forgoing consistency to adopt an industry metric that is becoming generally accepted. The trade-off between comparability and consistency clearly shows these are separate concepts.

BC11. Although this [draft] Standard does not use the term faithful representation, the concepts underlying faithful representation (balance, accuracy, and completeness) have been captured in the principles.

BC12. Cost constraint, although pervasive, is not a characteristic of information quality. Rather, it is a characteristic of the processes and procedures that provide information. Cost benefit decisions of Aotearoa New Zealand Climate Standards were considered by the XRB during its due process, through extensive outreach with preparers and stakeholders.

BC13. The XRB Board has included the principle of coherence as a presentation principle. The XRB Board is of the view that this is in line with its broader strategic direction of integrated reporting. Coherence means presenting information in a way to achieve intra-integration within climate-related disclosures and inter-integration between climate-related disclosures and other disclosures (including information in financial statements).

Location of Disclosures

BC14. The Act requires the preparation of climate statements or group climate statements that comply with the climate-related disclosure framework. It also requires that a copy of these climate statements or group climate statements must either be included in an entity's annual report (where an entity is required to prepare an annual report), or the annual report must include the address of (or a link to) the internet site where a copy of those statements can be accessed. However, the Act does not specify the format of the climate statements or group climate statements.

BC15. An important intent of the climate-related disclosure framework is to integrate an understanding of climate change across an entity. For example, one of the required disclosures under Risk Management asks for an entity to describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management. The XRB Board notes that many voluntary reporters integrate their TCFD disclosures throughout their annual report, rather than separating climate risks from other risks or activities.

BC16. The XRB Board has designed the presentation requirements to provide flexibility to entities to present their climate-related disclosures in a way that is most meaningful for their primary users, and to allow for evolution over time. An entity has the ability under this [draft] Standard to present its climate-related disclosures in a standalone document or within another document (for example, its annual report or a sustainability or integrated report). The XRB Board notes that, regardless of option chosen, an entity must ensure that the presentation principles in NZ CS 3 are met.

BC17. If an entity presents its climate-related disclosures in another document, the XRB Board has decided that an entity must include a table within that other document that clearly identifies the location of the disclosures required by Aotearoa New Zealand Climate Standards. In the XRB Board's view, this would both facilitate the integration of climate-related risks and opportunities into the entity's overall considerations and allow users to quickly locate and identify climate-related disclosures.

BC18. The XRB Board signaled its intent to take a flexible approach to presentation in the Governance and Risk Management consultation (GRM consultation).[3]. Most respondents who provided comments on presentation preferred climate-related disclosures to be fully integrated into other forms of reporting (such as annual reports) and commented that the XRB Board should not prescribe the location of an entity's climate-related disclosures.

Cross referencing

BC19. The XRB Board has decided to allow an entity the ability to use cross referencing when presenting its climate-related disclosures. The XRB Board has developed requirements for the use of cross referencing to ensure it is used appropriately and primary users have access to all the information they need for their decision making. The XRB Board intends for cross referencing to be used only in cases where it achieves fair presentation and enhances the understandability, completeness, consistency and coherence of climate-related disclosures.

Climate statements relating to registered schemes

BC20. The Act requires MIS managers to complete their climate-related disclosures for each separate fund. We received feedback from the GRM Consultation that MIS managers would like the XRB Board to clarify in the standards whether common information across funds can be presented at a scheme level. For example, if the disclosures related to Governance and Risk Management contain common information for each fund, can these disclosures be presented at a scheme level? The XRB Board has added paragraph 19 in response to this request for clarification.

Reporting Entity

BC21. The XRB Board is proposing that except as otherwise required by legislation, an entity is required to prepare its climate-related disclosures for the same reporting entity as its financial statements. This decision aligns with the XRB Board's mission of high-quality, credible, integrated reporting, and is designed to enable entities to link financial statements with climate-related disclosures.

Value Chain

BC22. Respondents to the Strategy and Metrics and Targets consultation (SMT consultation) requested clarification regarding the treatment of joint ventures when making climate-related disclosures.[4] The XRB Board notes that climate-related risks and opportunities relate to activities, interactions, and relationships, and to the use of resources along an entity's value chain. When considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. Investments that an entity has in other entities, for example, associates and joint ventures, are also considered to be part of an entity's value chain. The XRB Board decided to add paragraph 22 to this draft Standard in response to the request for clarification.

[3] See BC14 in draft NZ CS 1 for more on the GRM consultation.
[4] See BC15 in draft NZ CS 1 for more on the SMT consultation.

Reporting period

BC23. In the XRB Board's view climate-related disclosures should be made for the same reporting period as the financial statements. As some reporting entities are required or elect to publish half-year financial statements the XRB Board has clarified that climate-related disclosures should be made for the same reporting period as the annual financial statements.

Materiality

BC24. Materiality is a pervasive concept that applies across all the requirements in Aotearoa New Zealand Climate Standards. The XRB Board included a proposed definition of materiality and a draft section on materiality in its SMT consultation.

Primary users

BC25. The XRB Board has defined primary users as 'existing and potential investors, lenders and other creditors'. Some respondents from both the GRM and the SMT consultations requested that the definition of primary user be widened to accommodate other stakeholders (for example, in the for-profit sector this could include customers and employees; in the public sector, this could include an even wider range of users, such as ratepayers, resource providers or service recipients). The XRB Board note that the scope of entities included in the climate-related disclosure regime relates to the fact that the entities or their products can be invested in. The XRB Board considers that this provides a strong rationale to provide a tightly focused primary user definition that emphasises investor needs, rather than broadening it to other users.

BC26. The XRB Board acknowledges that some public benefit entities are included in the definition of CREs under section 461O of the FMCA 2013. However, these entities are included by virtue of providing an investment product, not because the entities are public benefit entities. The XRB Board considers that the information disclosed under this regime should be targeted at investors into those products. If the scope of entities changes in the future, the XRB Board acknowledges that this may warrant a change to the primary user definition, and that further consultation would be needed at that point.

Definition of material

BC27. In the SMT consultation, the XRB Board included a proposed definition of materiality and proposed materiality requirements. The proposed materiality definition is based on that used in financial reporting. However, the focus is on the effects of climate-related risks and opportunities on an entity's enterprise value, that is, a broader set of information than what is recognised in the financial statements.

BC28. Most respondents supported the definition of materiality as proposed by the XRB Board. Some respondents suggested that the definition of materiality should be aligned with the 'reasonable person test' used in the FMCA 2013. The XRB Board does not agree that moving away from a primary user test to a reasonable person test would be helpful. With respect to climate-related disclosures to assess enterprise value (including disclosures relating to forward-looking information, estimations, and uncertainties), the relevant audience is the primary user. This audience is expected to be educated and experienced enough to understand basic technical documents, which the XRB Board considers is over and above the 'reasonable person test'. However, the XRB Board does acknowledge that different entities may have primary users with different levels of sophistication (for example, KiwiSaver investors as opposed to an investor into listed debt), and an entity should consider this when presenting climate-related disclosures.

BC29. A few respondents to the SMT consultation suggested that the XRB Board should include a disclosure about how an entity has made materiality assessments. The XRB Board decided not to include such a disclosure as it was concerned that any requirement may result in boiler plate descriptions that would not provide useful information to primary users.

BC30. Some respondents requested clarification on how the proposed materiality definition related to that used in financial reporting. As noted above, the definition of materiality is based on the definition used in financial reporting. However, the XRB Board notes that materiality judgements about climate-related disclosures will differ from those for financial reporting. Materiality in the context of climate-related disclosures is assessed in relation to the effect of climate-related risks and opportunities on enterprise value. In contrast, materiality in financial reporting is generally assessed in the context of the recognised balances within the financial statements.

BC31. A third of respondents to the SMT consultation requested that the XRB Board consider introducing the concept of double materiality either now or in the future. As one respondent summarised, "…a double materiality lens requires an assessment of both inwards and outwards impacts (i.e., not only the material impact of climate change on the entity itself, but also the entity's material impact on climate change)".

BC32. In the SMT consultation, the XRB Board highlighted its view that the enterprise value lens also includes any impacts that an entity may have on climate change that circle back to have a subsequent impact on an entity's enterprise value. For example, if an entity has a significant negative impact on climate change, this may negatively impact its enterprise value due to subsequent regulatory action or social pressure.

BC33. The XRB Board acknowledges the topical and ongoing global debate on 'double' versus 'single' materiality. The XRB Board has had many discussions on this topic and what it means for the proposed climate-related disclosure framework. The XRB Board considers that using simplified labels such as 'single' or 'double' materiality may serve to reduce, rather than enhance, different understandings of this topic. It also questioned whether the directional effect really matters (i.e., impacts of climate on an entity versus impacts of an entity on the climate), when the fundamental concept of materiality is whether providing or withholding the information is likely to influence primary users' decision making. The XRB Board further notes that the proposed requirements in draft NZ CS 1 already require information to be disclosed about an entity's impact on climate change for example, the disclosure of scope 1, 2 and 3 GHG emissions, the transition plan aspects of an entity's strategy, and disclosure of an entity's targets.

BC34. The XRB Board conducted further outreach with stakeholders to understand what material information they thought would be missing from the climate-related disclosures if the XRB Board retained its proposed definition of materiality. A key message the XRB Board took away from the further outreach was that it was important to signal to an entity that it needs to take a broad view when considering how its impacts on the climate could reasonably be expected to affect the assessments that primary users make about an entity's enterprise value.

BC35. The XRB Board has decided to retain the lens of enterprise value, but in response to feedback received, has clarified in its proposals that an entity is encouraged to think broadly about possible feedback loops when it considers how its impacts on the climate could reasonably be expected to affect its enterprise value (see paragraph 37). In the XRB Board's view this amendment plus the proposed requirements in draft NZ CS 1 (that require information on impacts on climate, as noted above in paragraph BC33) will mean the primary users are not receiving less information than if the XRB Board proposed a different materiality definition.

BC36. Some of the respondents expressed concern that the proposed definition of materiality could be interpreted as including information that could influence decisions of primary users now or at any point in the future. The XRB Board notes that materiality judgements are made at the reporting date (what information will influence primary users' assessments of enterprise value as at the reporting date). In the XRB Board's view this is clearly explained in paragraph 32 of draft NZ CS 3.

BC37. The XRB Board has made a small amendment to the proposed definition of materiality and removed 'across all time horizons, including in the long term', as it noted that this was causing confusion and that consideration of a longer timeframe is implicit in the definition of enterprise value.

Materiality requirements

BC38. As noted above, the XRB Board included a draft materiality section in the SMT consultation. The XRB Board received feedback on specific proposed requirements in the draft section and made the following changes in response to feedback received.

(a) Clarified that the application of the disclosure requirements in Aotearoa New Zealand Climate Standards are presumed to result in material information in most cases. However, if when applying the disclosure requirements to its own specific facts and circumstances, an entity determines that the resulting information is not material, it need not disclose it.

(b) Deleted the paragraph on the provision of additional information as this is already covered by the fair presentation requirements.

(c) Deleted the proposed paragraph that required an entity to consider the full range of possible outcomes and likelihood of the possible outcomes within that range.

(d) Amended the proposed paragraph on materiality of a class of risk when considered in aggregate.

Comparative Information, Consistency of Reporting, and Restatement of Comparatives

BC39. The purpose of the consistency principle is to provide information about trends to primary users of climate-related disclosures. Disclosing climate-related metrics consistently from year to year will facilitate comparative and trend analysis. The XRB Board agreed that for each metric disclosed an entity must present at least two years of comparative information as this will provide a basis for primary users to track information over time. The XRB Board notes that this is a minimum requirement and an entity can provide historical data for as many years as it would like.

BC40. The XRB Board proposes that all material errors in previously reported metrics and targets would be corrected by restating comparative information. Such errors might arise though calculation mistakes, mistakes in applying the definitions for metrics and targets, oversights or misinterpretations of facts, and fraud.

BC41. An entity might change its current year's climate-related disclosures for several reasons; including changes in measurement methodology, changes in amounts because of more current estimates, or changes in the nature of an entity's activities. Draft NZ CS 3 does not require restatement for changes in disclosure unless such restatement would improve the information for primary users. An entity needs to explain the nature of the change, why any new metric is more useful, and the effect on the current reporting period's climate-related disclosures.

BC42. The XRB Board considered adding a disclosure requirement for the provision of comparative information for narrative and descriptive information when it was relevant to understanding the current reporting period's climate-related disclosures. In the XRB Board's view, providing comparative narrative and descriptive information would be unnecessary in most circumstances because:

(a) if the narrative and descriptive information is unchanged from the previous reporting periods, the disclosure of the current reporting period's information is likely to provide primary users with all the information that is relevant to an understanding of the current reporting period's climate-related disclosures; or

(b) if the narrative and descriptive information has changed from the previous reporting periods, the disclosures required by paragraph 40 of draft NZ CS 3 are likely to provide any information about the previous reporting period's narrative or descriptive information that is relevant to understanding the current reporting period's climate-related disclosures.

Methodologies, Assumptions and Estimation Uncertainty

BC43. Disclosures about methodologies, significant assumptions and significant estimation uncertainty are essential to ensure primary users are provided with information to understand the amounts in an entity's climate-related disclosures.

BC44. The SMT consultation proposed disclosure requirements for methodology and assumptions for both the Strategy, and Metrics and Targets sections in NZ CS 1. The XRB Board decided that these disclosure requirements were better placed in this [draft] Standard (rather than in NZ CS 1) as general requirements with additional specific disclosures where required.

BC45. The disclosures on methodologies and assumptions relating to scenario analysis were drawn from TCFD guidance. This guidance recommended disclosure on specific aspects of scenario analysis methodologies and assumptions because of their importance for primary users, namely enabling primary users to understand the process of the scenario analysis undertaken and the assumptions within the scenarios. The intent is to avoid a situation where scenarios are a 'black box' to primary users. Some of the requirements in draft NZ CS 3 are additional to the TCFD guidance because they reflect New Zealand-specific circumstances. For example, draft NZ CS 3 contains a more explicit reference to 'carbon sequestration from afforestation and nature-based solutions', given their relative importance in New Zealand's emissions reduction pathways.

BC46. The XRB Board considered the compliance costs associated with the proposed disclosures on methodologies and assumptions relating to scenario analysis. The XRB Board also considered the concerns raised by respondents that the proposed disclosures could potentially lead to the disclosure of immaterial detail which could obscure material information. The XRB Board concluded that these disclosures are fundamental for primary users to be able to compare across the disclosures made by different entities. The XRB Board also notes that cross referencing enables an entity to disclose detailed information relating to methodologies and assumptions in a location where it does not inhibit primary users from understanding other disclosures.

BC47. When the requirement to prepare a GHG emissions report was removed following the SMT consultation (see paragraph BC49 in draft NZ CS 1), the XRB Board decided to add additional disclosure requirements in relation to GHG emissions (see paragraphs 51 to 53) to ensure that an entity would provide enough information for primary users to be able to understand how they have measured their GHG emissions. These disclosure requirements have been informed by reporting requirements of the GHG Protocol, ISO 14064-1:2018 and ISAE NZ 3410.