

Third Submission

to the

External Reporting Board

on the

Aotearoa New Zealand Climate- related Disclosure Framework

27 September 2022



About NZBA

The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.

The following seventeen registered banks in New Zealand are members of NZBA:

- ANZ Bank New Zealand Limited
- ASB Bank Limited
- Bank of China (NZ) Limited
- Bank of New Zealand
- China Construction Bank
- Citibank N.A.
- The Co-operative Bank Limited
- Heartland Bank Limited
- The Hong Kong and Shanghai Banking Corporation Limited
- Industrial and Commercial Bank of China (New Zealand) Limited
- JPMorgan Chase Bank N.A.
- KB Kookmin Bank Auckland Branch
- Kiwibank Limited
- MUFG Bank Ltd
- Rabobank New Zealand Limited
- SBS Bank
- TSB Bank Limited
- Westpac New Zealand Limited

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I. Executive Summary

1. NZBA welcomes the opportunity to provide a further submission to the External Reporting Board (**the XRB**) on the Aotearoa New Zealand Climate-related Disclosure Framework. This document provides our views on proposed NZ CS 1, NZ CS 2, NZ CS 3 (**the Standards**) and the accompanying Guidance for all sectors and MIS managers (**the Guidance**) released on 28 July 2022.
2. NZBA commends the work that has gone into developing the Standards and the iterative consultation and engagement process undertaken. NZBA members will be both reporting entities and users of climate disclosures, and will benefit from a strong regulatory regime and standards that produce high-quality disclosures.
3. NZBA is supportive of the XRB's commitment to align the Standards with the Task Force on Climate Related Financial Disclosures (**TCFD**) and the International Financial Reporting Standards Foundation International Sustainability Standards Board (**ISSB**) recommendations. Consistency with international standards and global best practice is the right benchmark, as many Climate Reporting Entities (**CREs**) will have an international parent, be part of an international group, or will be operating in international capital markets. While recognising that these standards are evolving, NZBA supports further and continued alignment with the GHG Protocol and its Corporate Value Chain Standard, the ISO Standard,¹ and the PCAF Standard.
4. In overview:
 - a. NZBA supports the structure and direction of the Standards and Guidance. The separate Standards for first time adoption requirements (NZ CS 2) and general guidance (NZ CS 3) add clarity, with the application of NZ CS 2 falling away once an entity has had the benefit of the adoption provisions. NZBA supports keeping the Standards themselves principles-based and sector-neutral.
 - b. NZBA considers that the Standards and the Guidance generally strike the right balance between flexibility and setting expectations. NZBA seeks to maintain flexibility for reporting entities to recognise the evolving nature of climate related disclosures, future-proof the Standard, and align with overseas developments.
 - c. NZBA supports the proposed transitional (adoption) provisions, including in respect of Scope 3 emissions. NZBA additionally supports the option for CREs that are more advanced to choose not to use first-time adoption provisions if they are able to comply with the main disclosure requirements in their first climate statement.
 - d. NZBA supports the XRB's approach of "*starting qualitatively and building in quantification over time*" (NZ CS 1, BC 26) across the disclosures, and particularly its inclusion in NZ CS 1 of paragraphs 11(c) and 14(c) which recognise the difficulties with access to data.

¹ NZBA draws to XRB's attention the shift in terminology from Scope 3 emissions to multiple sub-categories of emissions in ISO 14064-01.

5. As noted in our previous submissions, NZBA and its members would welcome the opportunity to work with the XRB through 2022 to develop **sector-specific guidance for the banking sector**.

II. Detailed Response

A. *Governance disclosures*

6. **“Governance Body”**: NZBA supports the replacement of references to “board” with “governance body” to align with the ISSB prototype and to accommodate members where senior management positions or an Investment Committee are making the relevant decisions.
7. **Governance Body expertise**: We also support the removal of the requirement to disclose information as to specific board expertise and the shift in focus to how governance bodies *ensure that appropriate skills and competencies are available* in NZ CS 1, 7(b) to provide oversight of climate-related risks and opportunities.
8. **Governance body responsibilities**: Members suggest that Guidance accompanies NZ CS 1, 7(d), which requires entities to disclose how the governance body sets, monitors progress against and oversees achievement of targets. It would be useful to explain how CREs should respond where another body or individual is responsible for these specific steps.
9. **Delegated authority**: Members are concerned that NZ CS 1, 8(a) describing “*how climate-related responsibilities are delegated to management-level positions or committees...*” might suggest that CREs have delegated ultimate responsibility from the Board to management, rather than delegating certain tasks but retaining ultimate accountability. We suggest changing the wording to “*how management-level positions or committees are involved in assessing and managing climate-related risks and opportunities*”.

B. *Strategy disclosures*

10. **Quantitative information**: Members support the addition of disclosures NZ CS 1, 11(c) and 14(c), permitting entities which are “*unable*” to disclose quantitative information for current or anticipated financial impacts to explain why this is so.
11. In this regard:
 - a. Members note the useful articulation in the Guidance for All Sectors (pp 19 and 30) that CREs may provide qualitative information “*where quantitative financial impact data cannot be reliably sourced*”. In this regard, data availability should relate to genuine data availability, not an internal inability to process available data. Members welcome the Guidance that CREs should explain why the quantification of data was challenging, and how these challenges might be overcome in future.
 - b. Members suggest a cross-reference to this explanation at NZ CS 1, BC29(h), which could suggest as currently drafted that the exception is limited to disclosures that lend themselves to qualitative, rather than quantitative information, rather than where data is simply not available. BC29(h) states that its aim is to “*avoid attempted quantification of some impacts which are ultimately unsuited to being quantified and would be clearer to primary user presented in a qualitative manner*”. Members understand based on the Guidance for All Sectors that a qualitative explanation can also be provided where quantitative data would be appropriate but is not presently

available, or where some data is available, but the uncertainty is such that its disclosure would be misleading.

12. **Current vs. anticipated impacts:** Members support the clarification on the distinction between *current* and *anticipated* impacts (and financial impacts) of climate change. Members consider that additional guidance is required to clarify what is meant by “anticipated impacts”. Members would support the inclusion of examples in sector-specific guidance.
13. **Reasonably expected impacts:** Members also support the inclusion of the ISSB’s qualifier of anticipated impacts and financial impacts of climate-related risks and opportunities being those “*reasonably expected*” by an entity at NZ CS 1, 14.
14. **Transition planning:** Members support the requirement to align transition plans with a “*low-emissions, climate-resilient future*” at NZ CS 1, 15. Members seek further guidance on disclosure NZ CS 1, 15(c), which requires disclosure of the extent to which transition plan aspects of strategy are aligned with financial planning processes, including for capital deployment and funding. This could be appropriately dealt with in sector-specific guidance.
15. **Adaptation planning:** Members support the inclusion of adaptation planning elements within transition planning, and the removal of a requirement for a separate adaptation plan. Members seek further clarity and examples of disclosures of the adaptation aspects of transition planning. Members note that the incoming Climate Change Adaptation Act and the Government’s National Adaptation Plan (*NAP*) will inform members’ own adaptation planning which will necessarily change over time. In addition, key climate projection data, signalled in the *NAP*, is not expected to be available until 2024.
16. **Climate scenarios:**
 - a. Members support the replacement of the “*greater than two degree Celsius*” scenario with a “*three degree Celsius or greater scenario*” to ensure that CREs are exploring challenging physical risk scenarios.
 - b. Many members also support the addition of a third mandatory scenario. Some members prefer a requirement of only two mandatory scenarios (at least in early years), with a recommendation that reporting entities should strive for three scenarios where possible. This would allow flexibility for CREs that face different regulatory requirements in overseas markets.
 - c. Members support the recognition in the Guidance (p 21) that “*entities should take a relatively high-level approach in their first year of scenario analysis*”.

C. Risk Management disclosures

17. **Value chain exclusion:** Members support amended NZ CS 1, 18(c) requiring disclosure as whether any parts of the value chain are *excluded*. The Guidance for all sectors currently states that “*where necessary, entities could provide a rationale for why a given value chain component has been excluded*”. Members assume, but seek clarification that there is a materiality overlay to this disclosure – for example, if a certain part of the value chain has been excluded, but it is not considered material, it would not need to be separately identified as excluded (although the CRE would be free to do so).

D. Metrics & Targets disclosures

18. Members support the removal of the requirement for a separate GHG emissions report. All material aspects of this report are retained in the mandatory disclosures and it removes duplication. Since a specific emissions report is not being required, it would be

useful to provide examples of GHG disclosures and/or templates showing the level of detail expected.

19. Members support the removal of the requirement to disclose the proportion of revenue aligned with climate-related opportunities as a cross-industry metric to protect commercially sensitive information.
20. Members seek guidance on disclosures in NZ CS 1, 21(c) and (d), which require disclosure of the amount or percentage of assets or business activities vulnerable to transition and physical risks. Members note that there is no first-time adoption provision for the disclosure of these cross-industry metrics, and the term vulnerable is left undefined. Members consider that clarification would be useful, for example, on the extent to which they are expected to look across their portfolios at assessing the vulnerability of a particular customer. Members seek to engage with the XRB on this in the course of the development of sector-specific guidance.
21. Members are supportive of the addition of NZ CS 1, 22(e)(iii) *“the extent to which the target relies on offsets, whether the offsets are verified or certified, and if so, under which scheme or schemes.”*
22. NZ CS 1, 39 requires that *“for each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information”*. Members seek confirmation that this would not apply where new reporting metrics are voluntarily introduced.
23. Members suggest that NZ CS 1, 22(e)(iii) regarding targets should be amended such that disclosure is required as to whether the target has been validated *“or developed with”* a third party. This would allow for clarity as to whether a target has been developed with the involvement of a third party, or additionally formally validated by a third party.
24. Members submit that the wording at NZ CS 1, 23 around exclusions of sources from GHG emissions may not cover all relevant exclusions applicable to the banking sector. For example, it is unclear whether it could include exclusions of certain product types, sectors, or portfolios. We suggest that this be amended to read: *“a summary of specific exclusions of sources, facilities, operations or assets with a justification for their exclusion”*. Members also support the clarification in the Guidance for All Sectors at page 53 that this disclosure only relates to *“material exclusions of sources, facilities and or/operations”*.
25. Members support the requirements at NZ CS 3 regarding GHG emissions methodologies, assumptions and estimation uncertainty. Members suggest that these disclosures include specific reference to data limitations (including as to assumptions and availability of data) so that the expectation to disclose limitations around the uncertainty and/or availability of data is explicit. For example, we suggest an addition to para 47 to read:

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, and sources of, and any constraints in relation to, data.

E. Assurance

26. NZBA supports the reduced scope of the assurance provisions and agrees that the proposed limited assurance standard is the most appropriate.

F. First-time adoption proposals

27. Members seek clarification that comparatives for metrics required in an entity's second reporting period will not include scope 3 emissions metrics (which are not required to be disclosed in the first reporting period), and that in the third reporting period, only one year of comparative information for scope 3 emissions will be required. NZ CS 1, 39 requires that "*for each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information*". NZ CS 2 provides an exemption from this disclosure requirement in an entity's first reporting period, and requires only one year of comparative information in the second reporting period. However, it will not be possible to include comparative information for scope 3 emissions for CREs that only begin reporting scope 3 emissions in the second reporting year.

G. Banking-sector specific guidance

28. NZBA supports the preparation of banking-sector specific guidance and welcomes the opportunity to work with XRB in the development of this guidance. There is concern that if there is insufficient involvement from members, the guidance developed could be too generic to be useful.
29. Members are of the view that the Guidance is useful and pitched at the correct level. We support using the same structure for consistency, although stream-lined wherever possible to ensure it is easy to use.
30. Members would like to see more reference to standards such as PCAF in the banking-sector specific guidance. However, this should not be overly prescriptive and retain flexibility to use other methodologies that may develop over time (particularly because even PCAF requires familiarity with adequate base data and emissions factors). Guidance should note that standards will evolve over time, so the guidance will similarly need to evolve.
31. Members also support the addition of examples of metrics and targets (in the same way as provided in the Guidance for MIS managers for emissions intensity metrics and metrics for assessing vulnerability). Members encourage the use of example metrics (including those suggested by ISSB and TCFD) so long as they are not overly prescriptive and do not conflict with the required metrics and targets under NZ CS 1. It should be clear that these are provided as guidance only.

H. NZCS 3 General Requirements for Climate-related Disclosures

32. **Consistency:** The Guidance should reflect the fact that in the first few years of reporting disclosures are likely to change significantly as CREs build their processes and maturity. Members submit that the consistency requirement at [41] that "*if an entity changes what it discloses or how it presents its information, it must provide an explanation of those changes and the effect on the current reporting period's climate-related disclosures*" will be onerous for CREs and may be overwhelming for users, particularly early on where there may considerable change year on year due to developing methodologies. This

could be moved to guidance or subject to an adoption provision. One option would be an amendment that reads “if an entity *materially* changes what it discloses or how it presents its information, it must provide an explanation of those changes and the effect on the current reporting period’s climate-related disclosures”.

33. **Verifiability:** Members submit that the reference to use of “best-in-class” measurement methodologies (p 7) is not appropriate for the Standard and should be removed.
34. **Cross referencing:** Members support the ability to incorporate climate-related disclosures by cross referencing previous disclosures or other publicly available reports. NZ CS 3 17(b) requires that if an entity applies cross referencing the disclosures must remain unchanged and “available over time” at the cross-referenced location. Members suggest replacing the time reference to “available as required”.
35. **Methodologies and assumptions:** NZ CS 3, 50(b)(iii) requires, in relation to modelling for scenario analysis – “if modelling has been undertaken, a clear description of what modelling was undertaken and why the model/s were chosen as the appropriate models”. Members seek guidance as to how much detail is required for this disclosure.
36. Members suggest moving to Guidance the requirement to describe why a particular model was chosen as the appropriate model. This could require a wide assessment of all available models, which may not be practicable.
37. Members support the requirement for disclosure of GHG emissions methodologies, assumptions and estimation uncertainty in NZ CS 3, 51 – 53. These disclosures will be critical to enabling primary users to understand and compare climate statements.

III. Cross-reference to XRB Consultation Questions

38. To assist your review, a summary of our responses categorised by formal consultation question is set out below.

Question	NZBA Comment
<p>1) Do you think draft Aotearoa New Zealand Climate Standards will meet primary user needs?</p> <p>a) Do you think that the proposed disclosure requirements will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.</p> <p>b) Do you consider that draft Aotearoa New Zealand Climate Standards are clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?</p> <p>c) Do you consider that draft Aotearoa New Zealand Climate Standards are comprehensive enough and achieve the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?</p>	<p>Overall, members support the Standards and are of the view that the disclosure requirements will provide information that is useful to primary user needs.</p> <p>See our detailed responses above regarding further clarity required in some aspects of the disclosures.</p>

Question	NZBA Comment
<p><i>Please consider your answer to question 5 when responding to this question.</i></p>	
<p>2) Do you have any views on the defined terms in draft Aotearoa New Zealand Climate Standards?</p>	<p>NZBA members support the defined terms in the draft Aotearoa Climate Standards.</p>
<p>3) Do you have any practical concerns about the feasibility of preparing the required disclosures in draft Aotearoa New Zealand Climate Standards?</p> <p><i>In responding to this question, please consider the proposed first-time adoption provisions in NZ CS 2 and your answer to question 4. Please also clearly explain what would make the specific disclosure unfeasible to disclose against either in the immediate term or the longer term.</i></p>	<p>As identified in the NZBA's earlier submissions, climate reporting and GHG tracking is an evolving process, especially when not all entities not captured by mandatory reporting. We see collection and accuracy of Scope 3 emissions will be a challenging process in the initial reporting periods, even after the first year adoption provisions are applied.</p>
<p>4) Do you agree with the proposed first-time adoption provisions in NZ CS 2? Why or why not?</p> <p>a) Are any additional first-time adoption provisions required? If so, please provide specific details regarding the adoption provision and the disclosure requirement to which it would apply, and the period of time it would apply for.</p>	<p>NZBA supports all of the proposed first-time adoption provisions and members do not consider that additional adoption provisions are required. NZBA additionally supports the option for reporting entities that are more advanced to choose not to use first-time adoption provisions if they are able to comply with the main disclosure requirements in their first climate statement.</p>
<p>5) Do you think the draft staff guidance documents will support CREs when making their disclosures and support consistent application of the disclosure requirements? Why or why not?</p> <p>a) Do you think the guidance is under, adequately or overly specific and granular?</p> <p>b) Do you consider that anything in the guidance should be elevated into the standard? Should anything be demoted from the standard into guidance?</p>	<p>NZBA supports the draft staff guidance documents and considers that they generally strike the right balance between flexibility and setting expectations.</p> <p>NZBA welcomes the opportunity to further work with the XRB on the introduction of sector-specific guidance for the banking sector.</p>
<p>6) Paragraphs 13 to 19 of draft NZ CS 3 are the proposed location of disclosures requirements. Paragraphs BC14 to BC20 of the basis for conclusions on draft NZ CS 3 explain the XRB Board's intent regarding these proposed requirements. Do you agree with the proposed location of disclosures requirements? Why or why not?</p>	<p>NZBA supports the requirements. For specific comment, see Section H on NZCS 3 General Requirements for Climate-related Disclosures.</p>