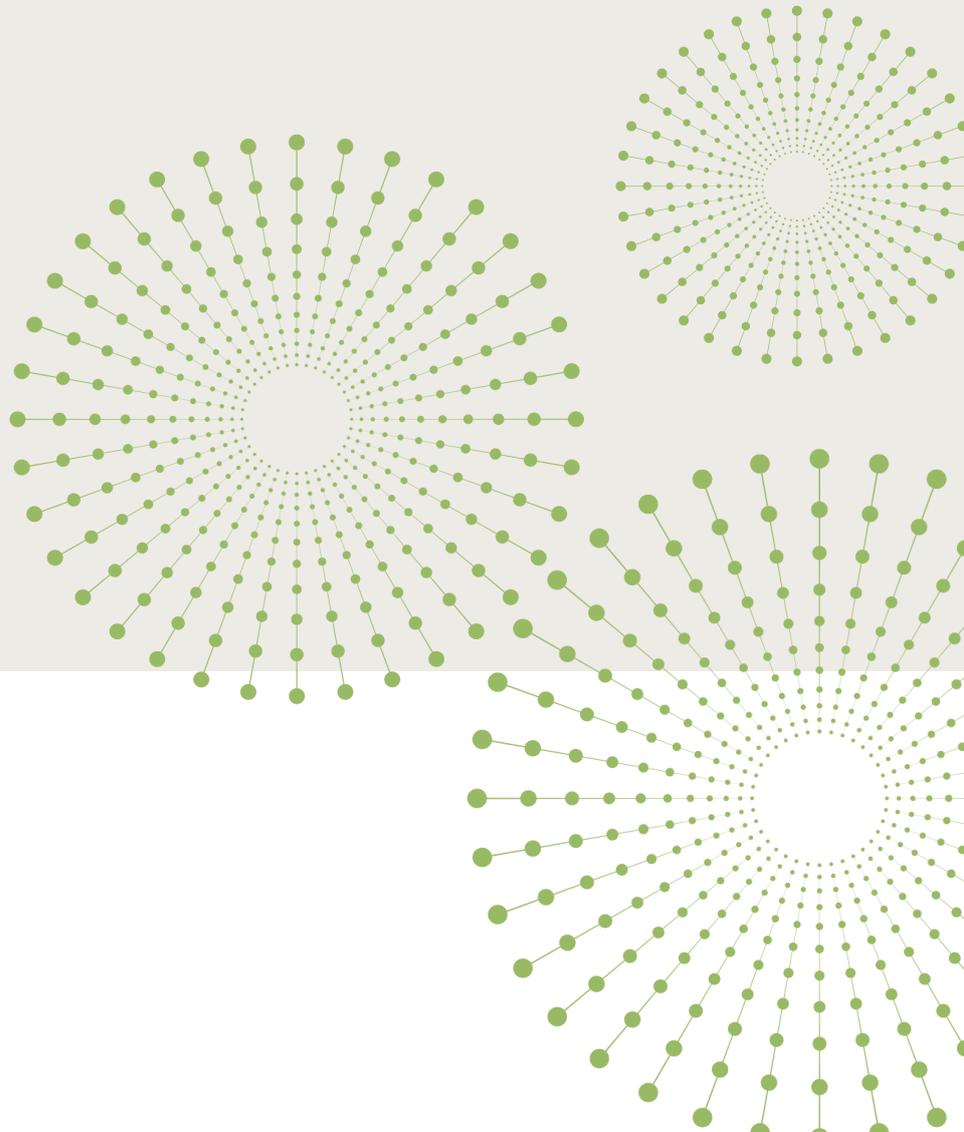


# Aotearoa New Zealand Climate Standard 3

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

**Mandatory from 1 January 2023**



Issued December 2022



## **Aotearoa New Zealand Climate Standard 3**

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

#### **Issued 14 December 2022<sup>1</sup>**

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

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

#### **Legal status of Standard**

This Standard was issued on 14 December 2022 by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard pursuant to section 27(1) takes effect on the 28<sup>th</sup> day after the date of its publication. The Standard was published under the Legislation Act 2019 on 14 December 2022 and takes effect on 11 January 2023.

#### **Commencement and application**

This Standard, pursuant to section 28(2) of the Financial Reporting Act 2013, has a mandatory date of 1 January 2023, meaning that it must be applied by reporting entities for accounting periods that begin on or after this date.

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

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<sup>1</sup> This explanatory note does not form part of the Standard and was updated on 17 December 2024.

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NZ CS 3 *General Requirements for Climate-related Disclosures* is set out in paragraphs 1-56 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 this Standard. This Standard should be read in the context of its objective, the Basis for Conclusions, NZ CS 1 *Climate-related disclosures* and NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*.

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The climate-related disclosure framework comprises three Aotearoa New Zealand Climate Standards that have been designed as a package. It is important that they are read in context of each other.

- NZ CS 1 contains the climate-related disclosure requirements for each of the four thematic areas (Governance, Strategy, Risk Management and Metrics and Targets) and the assurance requirements for greenhouse gas emissions disclosures.
- NZ CS 2 provides optional adoption provisions.
- NZ CS 3 contains the principles, the underlying concepts such as materiality, and the general requirements.

The need for materiality judgements is pervasive in the preparation and presentation of all disclosure requirements in Aotearoa New Zealand Climate Standards.

## Objective

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1. The objective of this Standard is to establish principles and general requirements to enable the provision of high-quality climate-related disclosures.
2. The ultimate aim of Aotearoa New Zealand Climate Standards is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

## Scope

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3. This Standard applies to entities that 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*.
4. 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*.<sup>2</sup>
5. This Standard does not apply to an *interim period*.

## Fair presentation

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6. An entity must fairly present its climate-related disclosures. Fair presentation requires an entity to disclose information in accordance with the principles in this Standard and the disclosure objectives and requirements in Aotearoa New Zealand Climate Standards.
7. 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.
8. 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.
9. 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 *climate-related 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

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10. To achieve fair presentation, an entity must apply the principles provided in Table 1 and Table 2 when preparing and presenting climate-related disclosures.
11. 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 may not be fully achieved and a balance or trade-off between certain of them may be

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<sup>2</sup> For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

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.

**Table 1: Principles — Information**

12. This table describes the principles that makes information in climate-related disclosures useful to primary users.

Principle	Explanation in the context of climate-related disclosures
<p><b>Relevance</b></p> <p>Information is relevant where it is capable of making a difference in the decisions made by primary users.</p>	<p>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.</p>
<p><b>Accuracy</b></p> <p>Information is accurate if it is free from material error or misstatement.</p>	<p>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.</p>
<p><b>Verifiability</b></p> <p>Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it.</p>	<p>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).</p>
<p><b>Comparability</b></p> <p>Information is comparable if it enables primary users to identify and understand similarities in, and differences among, items.</p>	<p>Information is more useful to primary users if it can be compared with:</p> <ul style="list-style-type: none"> <li>(a) information provided by the entity in previous <i>reporting periods</i>;</li> <li>(b) points of reference (such as <i>targets</i>, baselines, or an industry benchmark); or</li> <li>(c) information provided by other entities, in particular those with similar activities or operating within the same industry.</li> </ul>
<p><b>Consistency</b></p> <p>Information is consistent if the same metric, approach or method is used from reporting period to reporting period.</p>	<p>Consistent climate-related disclosures support comparability. However, recognising the developing nature of climate-related disclosures, consistency does not prevent new metrics, new approaches or methods from being adopted. For example, the disclosure of a new metric where it provides more useful information to primary users or adopting a new method where emerging best practice supports change.</p>
<p><b>Timeliness</b></p> <p>Information is timely when it is available in time to be capable of influencing primary users’ decisions.</p>	<p>Making climate-related disclosures available at the same time as an entity’s financial reporting enables primary users to make more rounded assessments.</p>

**Table 2: Principles — Presentation**

13. This table describes the principles that makes the presentation of climate-related disclosures useful.

Principle	Explanation in the context of climate-related disclosures
<p><b>Balance</b></p> <p>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.</p>	<p>Climate-related disclosures are balanced when they do not overemphasise positive news or impacts, in a manner that could be interpreted as misleading. Balanced narrative explanations require that climate-related disclosures are portrayed in a manner that is free from bias.</p>
<p><b>Understandability</b></p> <p>Presenting information in a clear and concise manner.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p><b>Completeness</b></p> <p>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.</p>	<p>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.</p> <p>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 material. This will show the risk or issue has not been overlooked.</p>
<p><b>Coherence</b></p> <p>Presenting disclosures in a way that explains the context and relationships with other disclosures of the entity.</p>	<p>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.</p> <p>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.</p> <p>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.</p>

## Location of disclosures

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14. 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).
15. 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

16. Disclosures required by Aotearoa New Zealand Climate Standards may be incorporated within an entity's climate-related disclosures by cross reference.
17. Disclosures included by cross referencing should comply with the principle of fair presentation in this Standard. In particular, disclosures included by cross reference should not make an entity's climate-related disclosures less understandable, complete or coherent.
18. 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 entity must identify the location of that information and explain how to access it; and
  - (c) the entity must ensure cross referencing is direct and precise as to the specific location of that information.
19. 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

20. To avoid unnecessary duplication this 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

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21. Except as otherwise required by Part 7A of the Financial Markets Conduct Act 2013, an entity must prepare its climate-related disclosures for the same *reporting entity* as its financial statements.

## Value chain

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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

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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

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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 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

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27. Materiality applies to all the disclosure requirements in Aotearoa New Zealand Climate Standards.
28. Information required by Aotearoa New Zealand Climate Standards must be disclosed if it is *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 an entity's climate-related disclosures.
29. 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.
30. Materiality is entity-specific, based on the nature, magnitude, or both, of the items to which the information relates. This Standard does not specify a uniform quantitative threshold for materiality or predetermine what would be material in a particular situation.
31. 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.
32. 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.
33. 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.
34. 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.
35. 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. 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.
36. 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 so 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).

37. 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.
38. Material information could include information about an entity's impacts on the climate if those impacts could reasonably be expected to influence decisions that primary users make on the basis of an entity's climate-related disclosures. For example, an entity's negative impact on climate change could, via subsequent regulatory action or social pressure, result in reputational damage to that entity, which, in turn, may influence the decisions of that entity's primary users. An entity is encouraged to think broadly about its climate-related risks and opportunities in the context of these possible feedback loops when it considers how its impacts on the climate could reasonably be expected to influence decisions that primary users make.
39. 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**

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### **Comparatives for metrics**

40. For each metric disclosed in the current reporting period an entity must disclose comparative information for the immediately preceding two reporting periods.
41. If an entity discloses a new metric in the current reporting period, paragraph 40 does not apply. In such cases the following disclosure requirements apply.
  - (a) An entity is not required to disclose comparative information in the current reporting period of disclosing a new metric.
  - (b) In the subsequent reporting period, an entity must disclose comparative information for the new metric for the immediately preceding reporting period.
  - (c) From the second reporting period an entity must disclose comparative information for this metric for the immediately preceding two reporting periods (that is, the metric is no longer new, and the requirement in paragraph 40 applies).
42. 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**

43. 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 the methods used, it must provide an explanation of those changes and of the effect on the current reporting period's climate-related disclosures.

## Restatement of comparatives

44. An entity may change what it discloses in the current reporting period for several reasons. For example, to correct a material error, change a method, 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 Standard requires restatements only for material errors made in previous reporting periods (see paragraph 45). However, it permits restatement of comparative information for other reasons (see paragraph 46).
45. 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.
46. 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 emissions* and *scope 2 emissions* only, to also include *scope 3 emissions*.

## Methods and assumptions, and data and estimation uncertainty

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47. Disclosures about methods and assumptions, and data and estimation uncertainty, are vital to ensure primary users are provided with information to understand the context of an entity's climate-related disclosures.
48. The use of uncertain data, and reasonable estimates based upon them, is an essential part of preparing climate-related disclosures. There may also be disclosures for which the methods available to entities are relatively novel or uncertain. The usefulness of the information disclosed is not undermined if the use of a novel or uncertain method, assumption, or uncertain data and estimation, is accurately and transparently described and explained.
49. An entity must:
- (a) provide a description of the methods and assumptions used in the preparation of its climate-related disclosures where they are not apparent, including the limitations of those methods.
  - (b) identify aspects of its disclosure (including amounts) that involve data and estimation uncertainty, disclosing the sources and nature of data and estimation uncertainties.
50. When deciding how much information to disclose in accordance with paragraph 49, an entity must focus on those assumptions and other sources of estimation and data uncertainty that have the most influence on an entity's climate-related disclosures, or that require an entity's most difficult, subjective or complex judgements.

## Scenario analysis methods and assumptions

51. An entity must disclose the methods and assumptions underlying the *climate-related scenarios* used, and the *scenario analysis* process employed. The following information must be included when describing the methods 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 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 was chosen as the appropriate model; and
  - (iv) which external partners and stakeholders are involved.

### **GHG emissions methods, assumptions and estimation uncertainty**

- 52. An entity must provide a description of the methods and 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.
- 53. An entity must describe uncertainties relevant to the entity's quantification of its GHG emissions, including the effects of these uncertainties on the GHG emissions disclosures.
- 54. An entity must provide an explanation for any base year GHG emissions restatements.

### **Statement of compliance**

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

## Appendix A Defined terms

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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 Standard. Some defined terms are used in at least one other Aotearoa New Zealand Climate Standard, always with the same meaning.

<b>Aotearoa New Zealand Climate Standards</b>	Standards issued by the External Reporting Board that comprise the climate-related disclosure framework.
<b>climate-related disclosure framework</b>	Climate-related disclosure framework has the meaning set out in section 9AA of the Financial Reporting Act 2013.
<b>climate-related opportunities</b>	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.
<b>climate-related risks</b>	The potential negative impacts of climate change on an entity. See also the definitions of physical risks and transition risks.
<b>climate-related scenario</b>	A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about 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.
<b>climate statements</b>	Climate statements has the meaning set out in section 5 of the Financial Reporting Act 2013.
<b>GHG</b>	See <b>greenhouse gas</b> .
<b>governance body</b>	A board, investment committee or equivalent body charged with governance.
<b>greenhouse gas</b>	The greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO <sub>2</sub> ); methane (CH <sub>4</sub> ), nitrous oxide (N <sub>2</sub> O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF <sub>3</sub> ), perfluorocarbons (PFCs), and sulphur hexafluoride (SF <sub>6</sub> ).
<b>group climate statements</b>	Group climate statements has the meaning set out in section 5 of the Financial Reporting Act 2013.
<b>interim period</b>	A financial reporting period shorter than a full financial year.
<b>management</b>	Executive or senior management positions that are generally separate from the governance body.
<b>material</b>	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of an entity’s climate-related disclosures.
<b>metric</b>	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.

<b>physical risks</b>	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.
<b>primary users</b>	Existing and potential investors, lenders and other creditors.
<b>reporting entity</b>	An entity that is required, or chooses, to prepare climate statements or group climate statements.
<b>reporting period</b>	The period covered by climate statements or group climate statements.
<b>scenario analysis</b>	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.
<b>scope 1 emissions</b>	Direct GHG emissions from sources owned or controlled by the entity.
<b>scope 2 emissions</b>	Indirect GHG emissions from consumption of purchased electricity, heat, or steam.
<b>scope 3 emissions</b>	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.
<b>target</b>	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.
<b>transition risks</b>	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.
<b>value chain</b>	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**

### **Application date**

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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 Standard.

#### **Application date**

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

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## **Basis for Conclusions on NZ CS 3 *General Requirements for Climate-related Disclosures***

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

### **Introduction**

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- BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing NZ CS 3 *General Requirements for Climate-related Disclosures* as part of the climate-related disclosure framework for Aotearoa New Zealand.<sup>3</sup>
- BC2. The Basis for Conclusions accompanying NZ CS 1 *Climate-related Disclosures* contains further information on the development of the climate-related disclosure framework, including an explanation of the multi-phase consultation process undertaken by the XRB.

### **Reasons for issuing this Standard**

- BC3. Rather than develop a separate conceptual framework for climate-related disclosures, the XRB Board decided to incorporate the necessary concepts needed to prepare and present climate-related disclosures into this Standard. This decision reflected that the XRB was working at pace to deliver a climate-related disclosure framework for Aotearoa New Zealand, while also acknowledging the XRB Board's decision to commence a separate project to develop an overarching integrated reporting framework.
- BC4. The XRB Board also decided that this Standard would include several general requirements. The XRB Board decided this for a number of reasons.
- (a) Future proofing: a separate general requirements standard would make it easier for the XRB Board to add another climate standard to the suite (should the need arise).
  - (b) To enable the XRB Board to keep NZ CS 1 concise i.e. NZ CS 1 will only contain the disclosures for the four thematic areas (Governance, Strategy, Risk Management and Metrics and Targets).
  - (c) To give the XRB Board the option to amend the general requirements as reporting matures.

### **Consultation**

- BC5. As discussed in the Basis for Conclusions accompanying NZ CS 1, the XRB Board issued an exposure draft of this Standard in July 2022 — ED Aotearoa New Zealand Climate Standard 3 *General Requirements for Climate-related Disclosures* (ED NZ CS 3). An earlier version of the materiality section was also consulted on as part of the March 2022 Strategy and Metrics and Targets consultation (SMT consultation).
- BC6. The XRB Board received 56 formal submissions in response to the ED consultation in July 2022 which was comprised of ED NZ CS 1 *Climate-related Disclosures*, ED NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards* and ED NZ CS 3. Comments were received by respondents on the proposed concepts and general principles in ED NZ CS 3. This Basis for Conclusions includes the reasons for accepting particular views and rejecting others.

### **Scope**

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- BC7. The XRB Board developed Aotearoa New Zealand Climate Standards primarily for those entities that are climate reporting entities (CREs) under the Financial Markets Conduct Act 2013 (FMCA 2013). The CREs captured are large listed debt or equity issuers, large financial entities

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<sup>3</sup> Note that some of the content in this Basis for Conclusions applies to the climate-related disclosure framework as a whole.

such as registered banks, licensed insurers, credit unions, building societies, and managers of registered managed investment schemes (MIS Managers).

- BC8. The XRB Board recognised that other entities may voluntarily apply Aotearoa New Zealand Climate Standards. 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 that voluntarily decide to apply Aotearoa New Zealand Climate Standards as opposed to having been asked by their funders or owners.
- BC9. The XRB Board encourages all entities that voluntarily adopt Aotearoa New Zealand Climate Standards to apply all the requirements of Aotearoa New Zealand Climate Standards (see paragraph 4). The XRB Board noted that an entity must not state that its climate statements or group climate statements comply with Aotearoa New Zealand Climate Standards unless it complies with all the requirements of Aotearoa New Zealand Climate Standards.
- BC10. The XRB Board noted it has the ability under the Financial Reporting Act 2013 to issue Aotearoa New Zealand Climate Standards that apply to interim periods. To avoid doubt, the XRB Board has clarified in the scope sections that NZ CS 1, NZ CS 2 and NZ CS 3 do not apply to interim periods.

## Fair presentation

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- BC11. The XRB Board decided to include fair presentation as the overarching principle in Aotearoa New Zealand Climate Standards. The XRB Board noted that there is a presumption that applying Aotearoa New Zealand Climate Standards will result in climate-related disclosures being presented fairly. The XRB Board also noted that additional disclosures may be necessary if the application of Aotearoa New Zealand Climate Standards do not achieve fair presentation.

## Principles

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- BC12. To underpin its requirements and help guide current and future development in climate-related disclosures, the XRB Board decided to develop a set of principles of high-quality reporting for climate-related disclosures. The XRB Board noted that such principles underpin the overarching principle of fair presentation. The XRB Board also noted that entities applying Aotearoa New Zealand Climate Standards must consider these principles when preparing climate-related disclosures.
- BC13. The XRB Board noted that the principles in Tables 1 and 2 (paragraphs 12 and 13) are largely consistent with other mainstream international disclosure frameworks. The XRB Board acknowledged that 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 decided to simply use the word 'principles'.
- BC14. The XRB Board decided to make the 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.
- BC15. The XRB Board decided to separate the concepts of comparability and consistency and noted a similar approach by the Task Force on Climate-related Financial Disclosures (TCFD). The XRB Board noted that during the implementation period, it is easy to imagine an entity forgoing consistency to adopt an industry metric that is becoming generally accepted. The XRB Board also noted that the trade-off between comparability and consistency clearly shows these are separate concepts.
- BC16. Respondents to ED NZ CS 3 also highlighted the inherent tension between the comparability and consistency principles. They acknowledged that the XRB Board had communicated its view that entities are embarking on a journey with climate-related disclosures. Respondents

commented that this journey means that matters reported will, by their nature, evolve as entities' capabilities and understanding mature. They noted that this may impede an entity's ability to adhere to the comparability and consistency principles in a meaningful way, or otherwise impose an unnecessary compliance burden for entities to explain and justify differences in and changes to reporting methods, which are part of the maturity journey. Respondents commented that adoption provisions may assist to alleviate this issue; however, wider consideration should be given to how the fair presentation requirements can be effectively applied to an ever-evolving subject.

- BC17. In responding to feedback on the topic of comparability, the XRB Board acknowledged that comparability at an individual disclosure level between entities may be particularly limited during the first several years of climate-related disclosures as processes, systems and methods are developed. The XRB Board further noted the nature of the information required to be disclosed may mean comparability between entities at an individual disclosure level may, by its nature, continue to be limited. However, the XRB Board considers that primary users will always be able to make high-level comparisons between entities. For example, entity A integrates climate-related risks into its enterprise risk management systems and entity B does not. In addition, the XRB Board noted that the disclosure of points of reference, such as targets, baselines and industry benchmarks enable primary users to make comparisons of the performance (and relative level of ambition) of an entity and then to compare that with the performance and ambition of another entity. The XRB Board is also of the view that meaningful comparability will be achieved between an entity's own disclosures over time, and that primary users are likely to be very interested in such comparability.
- BC18. Responding to the feedback on the imposition of an unnecessary compliance burden to explain and justify differences and changes to reporting methods, the XRB Board notes that it considered the compliance costs of this requirement when developing this Standard. While fair presentation requires transparency by entities of the changes in their methods, to reduce the reporting burden for entities, the XRB Board decided not to require restatement of comparative information for changes in methods, as it did not consider this information to be critical for primary user decision making.
- BC19. The XRB Board considered that cost constraint, although pervasive, was 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 Board during its due process, through extensive outreach with preparers and stakeholders.
- BC20. The XRB Board decided to include 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. The XRB Board noted that coherence means presenting information in a way that achieves intra-integration within climate-related disclosures and inter-integration between climate-related disclosures and other disclosures (including information in financial statements).
- BC21. ED NZ CS 3 included the following explanation under the principle of verifiability: 'To the extent possible, climate-related should be based on objective data and use best-in-class measurement methods, which may include common industry practice as it evolves'. Respondents did not agree that the reference to 'best-in-class' was appropriate and requested its removal. Respondents also noted the practical concerns regarding the accuracy and transparency of the data sources that can be applied for physical and transition risks. The XRB Board considered the feedback received and noted that this is a new disclosure regime and many disclosures do not have 'best-in-class' methods. In response to the feedback received the XRB Board deleted the proposed explanation paragraph.

## **Location of disclosures**

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- BC22. The XRB Board noted that, as well as providing information to primary users, an important intent of the climate-related disclosures framework is to embed an understanding of climate change across an entity. For example, one of the disclosures under Risk Management requires an entity to describe how its processes for identifying, assessing, and managing climate-related risks are integrated into the entity's overall risk management processes (see NZ CS 1, paragraph 18(b)). The XRB Board noted that many voluntary reporters integrate their TCFD

disclosures throughout their annual report, rather than separating climate-related risks from other risks or activities.

- BC23. The FMCA 2013 requires the preparation of climate statements or group climate statements that comply with the climate-related disclosures framework. For those entities that are required to prepare an annual report, the FMCA 2013 also requires that a copy of these climate statements or group climate statements must either be included in the entity's 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. Beyond these requirements, the FMCA 2013 does not specify the location of the climate statements or group climate statements. The XRB Board decided to design the location of disclosures requirements in this Standard to:
- (a) support entities taking an integrated approach to climate change;
  - (b) provide flexibility to entities to present their climate-related disclosures in a way that is most meaningful for their primary users; and
  - (c) allow for evolution over time.
- BC24. Most respondents who provided comments on the proposed location of disclosures requirements in ED NZ CS 3, 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. Responding to the feedback received, the XRB Board decided to give an entity the ability under this 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 noted that, regardless of the option chosen, an entity must ensure that the presentation principles in this Standard are met.
- BC25. While the majority of feedback received throughout the consultation supported the XRB Board's flexible approach, the XRB Board did receive feedback that taking a flexible approach may make it difficult for primary users to identify climate-related disclosures if they are provided within another document (rather than in a standalone document). Therefore, the XRB Board 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 (see paragraph 15). The intent is to allow primary users to quickly locate and identify reported information.

### **Cross referencing**

- BC26. The XRB Board decided to allow an entity the ability to use cross referencing when presenting its climate-related disclosures. The XRB Board 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.
- BC27. The XRB Board proposed allowing cross reference to websites in ED NZ CS 3. Some respondents noted that permitting cross referencing to an entity's website may be interpreted to mean climate-related disclosures could be part of an editable page on an entity's website and that this requirement should be removed. The XRB noted the requirement under the FMCA 2013 for an entity to lodge its climate-related disclosures with the registrar. The XRB Board also noted that the practicalities of meeting this requirement should information be hosted on a editable page on an entity's website. The XRB Board therefore decided to remove the ability to cross-refer to a website page. However, the XRB Board notes that this would not prohibit an entity from cross-referencing to a document held on an entity's website (as a copy of the document that is lodged with the registrar). Given the legal requirement to lodge climate-related disclosures, the XRB Board also decided to delete the proposed requirement in ED NZ CS 3 for an entity to maintain the cross-referenced information unchanged and available over time.

## Climate statements relating to registered schemes

BC28. The XRB Board noted that the FMCA 2013 requires MIS Managers to complete their climate-related disclosures for each separate fund. The XRB Board received feedback during the consultation that MIS Managers wanted the XRB Board to clarify in Aotearoa New Zealand Climate Standards whether common information across funds can be presented at a scheme level. Based on the feedback received the XRB Board decided to clarify the presentation requirements for MIS Managers and added paragraph 20 to this Standard.

## Reporting entity

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BC29. The XRB Board decided that except as otherwise required by Part 7A of the FMCA 2013, 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. The XRB Board received supportive feedback for this decision.

BC30. The XRB Board received feedback on ED NZ CS 3 that there are some complicated structures for overseas entities and groups. As a result, the XRB Board removed the paragraph in ED NZ CS 3 that referenced the preparation of climate-related disclosures for a group as well as a subsidiary. The XRB Board noted that the FMCA 2013 determines if and how entities are captured in the regime and are therefore classified as a CRE. The XRB Board concluded that entities would need to determine for themselves if they are a CRE. The XRB Board also ensured that the final versions of Aotearoa New Zealand Climate Standards did not replicate any of the requirements for CREs that are included in the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Amendment Act).

## Value chain

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BC31. The XRB Board received feedback during the consultation process that it should clarify the treatment of joint ventures when making climate-related disclosures. The XRB Board noted that climate-related risks and opportunities relate to activities, interactions, and relationships, and to the use of resources along an entity's value chain. The XRB Board also noted that when considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. Consistent with this reasoning, the XRB Board noted that 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 Standard in response to the request for clarification. The XRB Board received support for the inclusion of an entity's value chain in this Standard.

## Reporting period

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BC32. The XRB Board decided that climate-related disclosures should be made for the same reporting period as the financial statements. The XRB Board noted that as some reporting entities are required or elect to publish half-year financial statements, it was necessary to clarify that climate-related disclosures should be made for the same reporting period as the annual financial statements.

## Materiality

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### Primary users

BC33. This Standard defines primary users as 'existing and potential investors, lenders and other creditors'. The XRB Board received feedback from some respondents throughout the consultation process that the definition of primary user should be widened to accommodate other stakeholders (for example, in the for-profit sector including customers and employees; in

the public sector including a wider range of users, such as ratepayers, resource providers or service recipients). The XRB Board considered this feedback and concluded that the scope of entities included in the climate-related disclosure regime related to the fact that the entities or their products can be invested in and that this provided a strong rationale to provide a tightly focused primary user definition that emphasises investor needs, rather than broadening it to other users.

- BC34. The XRB Board acknowledged that some public benefit entities (PBEs) are included in the definition of reporting entities under section 461O of the FMCA 2013. However, these entities are included by virtue of providing an investment product, not because the entities are PBEs. The XRB Board decided that the information disclosed under this regime should be targeted at investors in those products. If the categories of entities designated as a CRE changes in the future as a result of legislative amendment, the XRB Board concluded that this may warrant a change to the primary user definition, and that further consultation would be needed at that point. The XRB Board also concluded that PBEs could take a broader perspective of who their primary users are, and report information that is considered to be of value to them.
- BC35. The XRB Board also acknowledged the debate on whether primary users and other stakeholders have different information needs when it comes to the disclosure of climate-related information in particular. The XRB Board's current understanding is that there is a high degree of overlap between the information needs of these two groups.

### **Materiality is a pervasive concept**

- BC36. Some respondents to ED NZ CS 3 requested clarification on whether certain disclosure requirements were subject to materiality judgements. For example, respondents sought clarification as to whether the disclosure requirement in paragraph 19(c) in the Risk Management section of NZ CS 1 was subject to a materiality judgement. These respondents recommended that the disclosure was amended to read "whether any material parts of the value chain are excluded". As another example, respondents also sought clarification as to whether the disclosure requirement in paragraph 41 of ED NZ CS 3 that required an entity to explain changes in what it disclosed, the methods used, or how it presented its information applied only to material changes, or to all changes. This feedback and questions received during other outreach activities indicated to the XRB Board that there was confusion relating to the application of materiality.
- BC37. Responding to this feedback, the XRB Board noted that the disclosure requirements in Aotearoa New Zealand Climate Standards are required to be provided by an entity when material. The XRB also noted that while the application of the disclosure requirements in Aotearoa New Zealand Climate Standards are presumed to result in material information in most cases, ultimately the responsibility for making materiality judgements rests with the reporting entity for all requirements in Aotearoa New Zealand Climate Standards. The XRB Board notes that an entity need not provide a specific disclosure required by Aotearoa New Zealand Climate Standards if, in the judgement of the reporting entity, the information resulting from that disclosure would not be material.
- BC38. The XRB Board further notes that materiality is a pervasive concept that applies to all disclosure requirements in Aotearoa New Zealand Climate Standards. The XRB Board's view is that it would not be helpful to insert the word 'material' in front of certain disclosures as this could lead to further confusion (particularly in cases where 'material' was not inserted). Rather the XRB Board intends entities to disclose only information that it considers to be material to its primary users. For example, paragraph 53 requires disclosure of 'uncertainties relevant to the entity's quantification of its GHG emissions, including the effects of these uncertainties on the GHG emissions disclosures'. An entity must only disclose material uncertainties, rather than all uncertainties. If all uncertainties were disclosed, material information could be obscured by immaterial information (see paragraph 8). Responding to the feedback received, the XRB Board decided to add paragraph 27 to this Standard and to include a reminder at the front of Aotearoa New Zealand Climate Standards to reinforce to preparers that materiality applies to all disclosure requirements.

### Use of ‘material’ and ‘significant’

BC39. The feedback on the use of the term ‘material’ also made the XRB Board consider its use of the term ‘significant’ in the exposure drafts of Aotearoa New Zealand Climate Standards. The XRB Board decided to remove the term significant where it was considered to have the same meaning as material to avoid any confusion.

### Disclosure of materiality assessments

BC40. A few respondents during the consultation suggested that the XRB Board should include a disclosure about how an entity has made materiality assessments at the level of individual disclosure requirements. The XRB Board decided not to include such a disclosure at this time as it was concerned that such a requirement may result in boiler plate descriptions that would not provide useful information to primary users and may inadvertently recreate the ‘disclose or explain’ structure that was expressly removed during Select Committee (Economic Development, Science and Innovation Committee) stage from the Amendment Act. The XRB Board noted that it may reconsider at the post-implementation review (PIR) stage whether to introduce a disclosure requirement about the process of identifying and disclosing material information and/or materiality judgements. This would depend on whether there were concerns about the lack of disclosure about how entities decide what is, and what is not, material and the need to provide greater transparency for users.

### Enterprise value not meaningful for entire CRE population

BC41. ED NZ CS 3 contained the following definition of material:

*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity’s enterprise value.*

BC42. The XRB Board received the following items of feedback on the proposed definition of material in ED NZ CS 3:

- (a) the linkage to assessments of enterprise value in the definition is not appropriate for public entities that are PBEs—market capitalisation and elements contained in the definition of enterprise value are generally not relevant for public entities that are PBEs;
- (b) the definition of material is inconsistent with the requirement for entities to think more broadly about climate-related risks and opportunities;
- (c) debt investors may not be primarily concerned with assessments of enterprise value;
- (d) ‘assessments of enterprise value’ in relation to MIS Managers should refer instead to each fund; and
- (e) for MIS Managers it might be useful to adopt the definition of ‘material information’ under the FMCA 2013 as this would provide a consistent approach to materiality for MIS Managers (and their primary users).

BC43. The XRB Board noted that the ISSB at its October 2022 meeting<sup>4</sup> tentatively decided to remove the definition of ‘enterprise value’ and the words ‘to assess enterprise value’ from the objective and description of materiality in its Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (ED IFRS S1) and to redeliberate the meaning of enterprise value at a future meeting. The ISSB also confirmed its definition of material in ED IFRS S1 shares the same definition as that used in IFRS<sup>®</sup> Accounting Standards.<sup>5</sup>

BC44. The XRB Board considered the feedback received in response to its proposed definition of material and the current direction of travel indicated by the ISSB. The XRB Board concluded that it should adopt a definition of material that can be applied by all the entities that are required by the FMCA 2013 to prepare climate statements or group climate statements. Consequently,

<sup>4</sup> IFRS Foundation. 2022. IFRS Update October 2022. Available at <https://www.ifrs.org/news-and-events/updates/issb/2022/issb-update-october-2022/>

<sup>5</sup> The ISSB proposed definition of material is: Sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity.

the XRB Board decided to remove the link to enterprise value from the definition of material and remove the definition of enterprise value from the defined terms. The XRB Board also decided to remove the definition of climate-related disclosures from the defined terms as this definition also focused on assessments of enterprise value.

- BC45. The XRB Board decided on the following definition of material:

*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users make on the basis of an entity's climate-related disclosures.*

- BC46. As well as aligning more closely with the proposed ISSB definition, the XRB Board also noted that the above definition is aligned with the definition in the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting (2018 NZ Conceptual Framework):

*Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports (see paragraph 1.5) make on the basis of those reports, which provide financial information about a specific reporting entity.*

### **What decisions are primary users making**

- BC47. Given the decision to remove 'assessments of enterprise value' from the materiality definition, the XRB Board noted that a lack of clarity could arise about the nature of the decisions expected to be made by primary users. The XRB Board therefore decided to include a paragraph under the objective in each Aotearoa New Zealand Climate Standard. This paragraph states that the ultimate aim is to 'support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future'. The XRB's Board view is that primary users need information that enables them to make these capital allocation assessments. The XRB Board noted that primary users also make assessments of an entity's ability to create or preserve value for itself and therefore for its investors and creditors, and that generating long-term value necessarily requires a wider perspective than just immediate monetary returns.

### **Characteristics of primary users and the reasonable person test**

- BC48. The XRB Board received feedback on the exposure drafts that it should clarify 'the type of investor' considered to be a primary user by reference to the concepts contained in the FMCA 2013, such as a primary user is an investor who commonly invests in financial products as this will affect the assessment of materiality. Some respondents to the earlier SMT consultation had also suggested that the definition of materiality should be aligned with the 'reasonable person test' used in the FMCA 2013. The XRB Board noted at the time that it did not agree that moving away from a primary user test to a reasonable person test would be helpful, and that it considered the relevant audience is the primary user.
- BC49. The XRB Board also noted that with respect to climate-related disclosures (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 considered is over and above the 'reasonable person test'. However, the XRB Board acknowledged that different entities may have primary users with different levels of sophistication (for example, KiwiSaver investors as compared to an investor in listed debt), and an entity should consider this when presenting climate-related disclosures.

### **Double vs single materiality**

- BC50. Throughout the consultation process respondents requested that the XRB Board consider introducing the concept of double materiality either now or in the future. The XRB Board acknowledged the topical and ongoing global debate on 'double' versus 'single' materiality. The XRB Board considered this topic and what it means for the climate-related disclosure framework. The XRB Board considered 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 noted that the requirements in 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 GHG emissions targets).

- BC51. The XRB Board conducted further outreach with stakeholders during the consultation period to understand what material information they thought would be missing from the climate-related disclosures if the XRB Board retained its original 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 influence the decisions of its primary users.
- BC52. In response to feedback received, the XRB Board decided to clarify in this Standard 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 influence the decisions of its primary users (see paragraph 38). In the XRB Board's view this amendment plus the requirements in NZ CS 1 (that require information on impacts on climate, as noted above in paragraph BC50) will mean the primary users are not receiving less information than they would if the XRB Board adopted a broader materiality definition.

## **Comparative Information, consistency of reporting, and restatement of comparatives**

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- BC53. One of the purposes 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 decided to require an entity to disclose comparative information for the immediately preceding two reporting periods, as this will provide a basis for primary users to track information over time. The XRB Board noted that this is a minimum requirement and an entity can provide historical data for as many reporting periods as it would like.
- BC54. The XRB Board received feedback that it should clarify whether comparative information is required when an entity discloses a 'new' metric. The XRB Board considered this feedback and decided it would not require an entity to provide comparative information when it disclosed a new metric. The XRB Board added paragraph 41 accordingly.
- BC55. ED NZ CS 3 included requirements for an entity to provide an explanation of changes in its climate-related disclosures from one reporting period to the next. The XRB Board received feedback that these disclosure requirements could be onerous for entities and may be overwhelming for users, particularly early on where there may be considerable change year on year due to developing methods. The XRB Board reconsidered its approach and removed the requirement for an entity to provide an explanation if an entity changes 'how it presents its information', for example the use of different formats, narratives or language. However, the XRB Board reaffirmed its view that changes to what an entity reports, for example, a change in a metric disclosed or a change in a method used must be disclosed as this information could reasonably be expected to influence decisions that primary users make.
- BC56. The XRB Board decided that all material errors in previously reported information must be corrected by restating comparative information. Such errors might arise through calculation mistakes, mistakes in applying the definitions for metrics and targets, oversights or misinterpretations of facts, and fraud. The XRB Board also decided that an entity is required to disclose an explanation of the material error and the change (see paragraph 45).
- BC57. The XRB Board noted that an entity might change its current year's climate-related disclosures for several reasons. These include changes in measurement methods, changes in amounts because of more current estimates, or changes to the nature of an entity's activities. The XRB Board concluded that an entity needs to explain any such changes and the effect they have on the current reporting period's climate-related disclosures (see paragraph 43). However, because of the developing nature of climate-related disclosures, the XRB Board decided not to require an entity to restate its comparative information in these circumstances. Although restatement is not required, the XRB Board also decided to include in this Standard examples of when an entity should consider restatement of comparative information (see paragraph 46).

## **Methods and assumptions, and data and estimation uncertainty**

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- BC58. The XRB Board noted that climate-related disclosures include disclosures relating to forward-looking information, and that providing these disclosures involves the selection of methods (some of which may have inherent limitations), the use of, assumptions, estimations, and comes with a level of uncertainty. The XRB Board decided to include in ED NZ CS 3 requirements for the disclosure by an entity of the methods and assumptions used, and to identify those disclosures that have significant estimation uncertainty. The XRB Board is firmly of the view that transparency in this area is critical to ensure primary users are provided with information to understand the context of an entity's climate-related disclosures but also to assist with comparability of disclosures. Responding to feedback received earlier in the consultation period that these disclosure requirements could result in voluminous disclosures, the XRB Board decided to clarify in ED NZ CS 3 that 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.
- BC59. The XRB Board received feedback on ED NZ CS 3 that the section on methods, assumptions and estimation uncertainty as drafted focused on 'amounts' included in an entity's climate-related disclosures. Respondents felt that this may inadvertently narrow the disclosures an entity would make. The XRB Board agreed with the views expressed and amended the requirements.
- BC60. During the exposure draft period, the XRB Board received feedback that it should also require an entity to 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. Responding to this feedback the XRB Board decided to add a requirement for an entity to disclose aspects of its disclosures that involve data uncertainty.
- BC61. Also responding to feedback received that, for some of the disclosures, the methods available to an entity are relatively novel or uncertain. The XRB included an explanation in this Standard that using a relatively novel or uncertain method does not undermine the usefulness of the information disclosed as long as the use of that method is accurately and transparently described and explained.
- BC62. Some respondents to ED NZ CS 3 stated a preference that the methods and assumptions employed by entities be mandated by the XRB. The XRB noted that in some cases, it will take time and a degree of trial and error before methods are widely accepted, robust datasets are available, and greater certainty around disclosures is attained. In the interim, it is important that entities actively engage in the process of sourcing new methods and new data sources, and research the appropriate assumptions, which are required to tackle some aspects of climate-related disclosure. To that end, the XRB Board considered that the choice of methods and assumptions, and data and estimations that entities use should be the entities own decision.
- BC63. The XRB Board also removed the term 'significant' from paragraph 50 of this Standard (see paragraph BC39). The XRB Board clarified that when deciding how much information to disclose in relation to assumptions, and data and estimation uncertainty, an entity must focus on those assumptions and other sources of estimation and data uncertainty that have the most influence on an entity's climate-related disclosures, or that required an entity's most difficult or complex judgements.
- BC64. In ED NZ CS 3, the terms 'methodology' and 'methodologies' were sometimes used. The XRB Board decided to exclusively use the terms 'method' or 'methods' in the final version of this Standard both for the sake of consistency across disclosure requirements, and for simplification. The XRB Board noted that, in common parlance, there is little distinction between what is understood as a method versus a methodology.

### **Scenario analysis and assumptions**

- BC65. The XRB Board decided to include disclosures on methods and assumptions relating to scenario analysis, and to draw these from TCFD guidance. The XRB Board noted that the TCFD guidance recommended disclosure on specific aspects of scenario analysis methods 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 XRB Board noted that the intent is to avoid a situation where scenarios are a 'black box' to primary users. The XRB Board also noted that some of the requirements in this Standard are additional to the TCFD guidance because they reflect New Zealand-specific circumstances. For example, this Standard 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.

- BC66. Some respondents to ED NZ CS 3 expressed concerns that the disclosure requirement in paragraph 51(b)(iii) relating to what modelling an entity has undertaken and why an entity had chosen a model, could require a wide assessment of all available models which may not be practicable, and may result in voluminous disclosures. The XRB Board noted that the requirement in paragraph 51(b)(iii) is not to provide an evaluation of models against all others, it is simply to provide a rationale for the choice given.
- BC67. The XRB Board considered the compliance costs associated with the proposed disclosures on methods 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 achieve a level of comparability across the disclosures made by different entities<sup>6</sup>, and also provide primary users with the ability to understand assumptions.<sup>7</sup> The XRB Board also noted that cross referencing enables an entity to disclose detailed information relating to methods and assumptions in a location where it does not inhibit primary users from understanding other disclosures.

### **GHG emissions methods, assumptions and estimation uncertainty**

- BC68. When the requirement to prepare a GHG emissions report was removed following the SMT consultation (see NZ CS 1, paragraph BC65), the XRB Board added additional disclosure requirements in relation to GHG emissions (see paragraphs 52 to 54) to ensure that an entity would provide enough information for primary users to be able to understand how they have measured their GHG emissions. The XRB Board noted that these disclosure requirements have been informed by the GHG Protocol, ISO 14064-1:2018 and ISAE NZ 3410.
- BC69. The XRB Board received feedback that it should consider whether a data quality score or something similar should also be disclosed for GHG emissions so as to provide more useful information to users. The XRB considered this could be disclosed by an entity depending on their choice of measurement standard (for example, if an entity employed the PCAF method it would disclose a data quality score).

## **Statement of compliance**

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- BC70. The XRB Board received feedback that entities were concerned with the requirement to make an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards while the new regime is implemented and reporting entities build up their expertise and capacity. Respondents suggested that a statement of compliance should not be required in the early years of the regime.
- BC71. This feedback indicated to the XRB Board that there may be a lack of understanding regarding the statement of compliance. The XRB Board noted that Aotearoa New Zealand Standards are secondary legislation and are legally required to be complied with under the FMCA 2013. The XRB Board acknowledged the need to build expertise and capacity and has issued NZ CS 2

<sup>6</sup> The Investor Group on Climate Change notes that the *'inputs affect the results, and are not transparent enough... Public scenarios have weaknesses; but bespoke scenarios are opaque and prohibit comparison. Where bespoke scenarios are developed and applied, transparency on the assumptions and relationship to existing scenarios is even more critical.'* Investor Group on Climate Change. 2020. 'Full disclosure: Improving corporate reporting on climate risk'. Available at [https://igcc.org.au/wp-content/uploads/2020/09/IGCCReport\\_Full-Disclosure\\_FINAL.pdf](https://igcc.org.au/wp-content/uploads/2020/09/IGCCReport_Full-Disclosure_FINAL.pdf) (pages 27 to 28).

<sup>7</sup> The TCFD notes that *'[u]nderstanding the underlying assumptions of different pathways is critical for understanding company-level risks, impacts, and uncertainties. Differences in assumptions (and hence different pathways) can make big differences in company-level impacts.'* TCFD. 2020. 'Guidance on scenario analysis for non-financial companies'. Available at [https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD\\_Guidance-Scenario-Analysis-Guidance.pdf](https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf) (page 26).

## NZ CS 3

which provides optional adoption provisions for some of the more challenging disclosures required by Aotearoa New Zealand Climate Standards. The XRB Board is firmly of the view that entities can state compliance with the disclosure requirements in Aotearoa New Zealand Climate Standards notwithstanding that the underlying practices supporting the disclosure requirements will become more sophisticated over time.