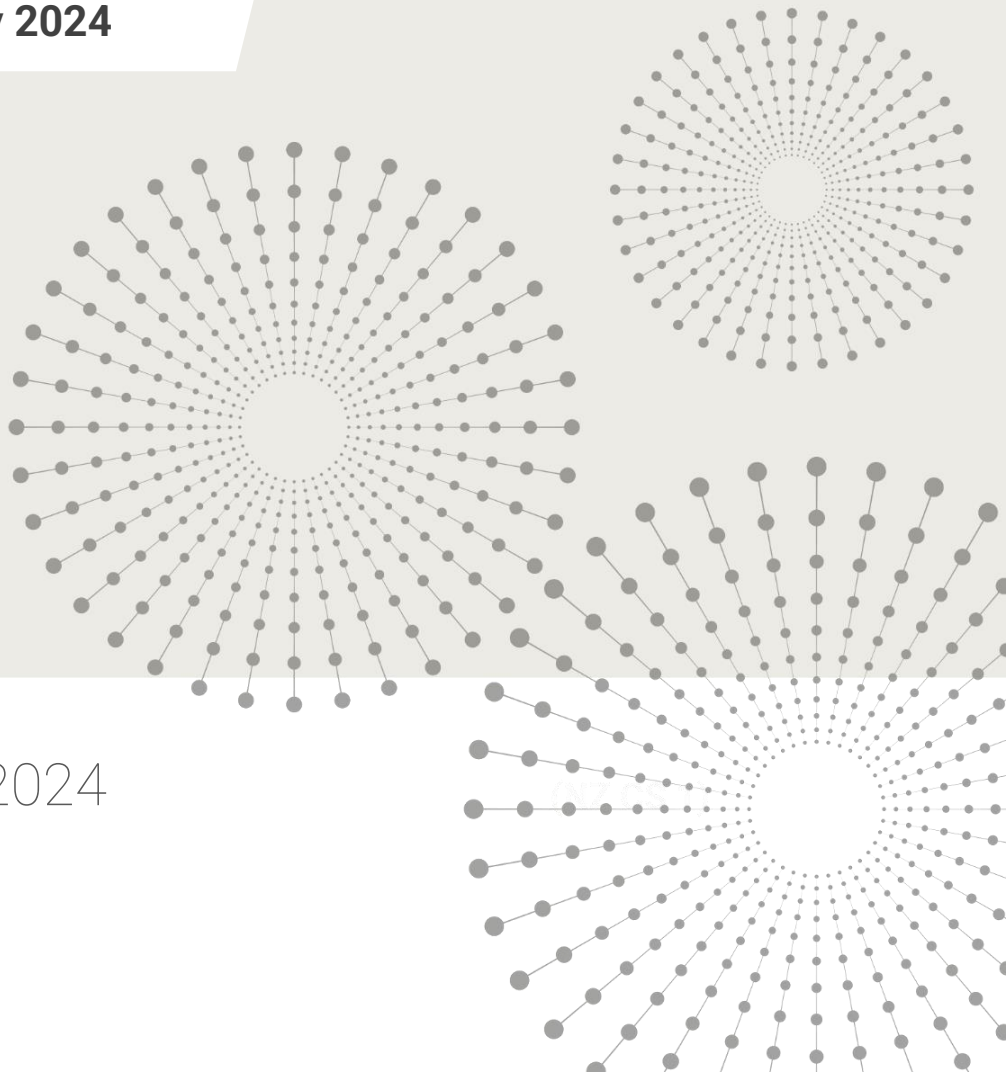


Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024

Mandatory from 1 January 2024

Issued November 2024





Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024

Issued 27 November 2024

This amending Standard has been issued to amend adoption provisions in NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*.

In finalising this amending 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 amending Standard

This amending Standard was issued on 27 November 2024 by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

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

This amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 27 November 2024 and takes effect on 25 December 2024.

Commencement and application

This amending Standard, pursuant to section 28(2) of the Financial Reporting Act 2013, has a mandatory date of 1 January 2024, meaning it must be applied by reporting entities for accounting periods that begin on or after this date.

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Part A – Introduction

This amending Standard makes changes to NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*. The amendments are to:

- extend the adoption provisions for:
 - scope 3 GHG emissions for an additional year (and related extensions to the adoption provisions relating to comparatives for scope 3 GHG emissions and analysis of trends);
 - anticipated financial impacts for an additional year; and
- establish an adoption provision in relation to accounting periods ending before 31 December 2025 for the assurance of scope 3 GHG emissions disclosures, thus giving an additional year before the assurance over scope 3 GHG emissions disclosures is required. This means that the assurance of scope 3 GHG emission disclosures will apply in relation to accounting periods ending on or after 31 December 2025.

Part B – Scope

This amending Standard applies to entities that are required by Part 7A of the Financial Markets Conduct Act 2013 to prepare climate statements or group climate statements that comply with the climate-related disclosure framework.

Part C – Amendments to NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*

Paragraph 1.1 is added.

Paragraph 8.1 is added.

Paragraphs 7, 8, 12, 17, 18 and 19 are amended. Paragraph 22 is not amended but is provided for context. Paragraphs 19.1 and 22.1 are added.

Section entitled Assurance of GHG emissions disclosures is added.

Paragraphs 24 to 26 are added including their related headings.

New text is underlined and deleted text is struck through.

Objective

1. In recognition that it may take time to develop the capability to produce high-quality climate-related disclosures, and that some disclosure requirements, by their nature, may require an exemption, this Standard provides a limited number of adoption provisions from the disclosure requirements in *Aotearoa New Zealand Climate Standards*.
- 1.1 This Standard also provides an adoption provision relating to the assurance of scope 3 GHG emissions disclosures. This adoption provision recognises the temporary challenges in obtaining sufficient reliable data to support the disclosures subject to an assurance engagement and to enable increased consistency across the assurance market.

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Scope

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7. Adoption provisions 1 ~~to 4~~ and 3 are only available to an entity when preparing and presenting climate statements or group climate statements for its *first reporting period*.
8. Adoption provisions ~~5~~ 2 and 4 to 7 are available to an entity when preparing and presenting climate statements or group climate statements for its first reporting period, *second reporting period*, ~~or third reporting period~~ or *fourth reporting period*.
- 8.1 Adoption provision 8 is available to an entity when preparing and presenting climate statements or group climate statements in relation to accounting periods ending before 31 December 2025.

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Adoption provisions

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Adoption provision 2: Anticipated financial impacts

12. Paragraph 15(b) of NZ CS 1 requires the following disclosure:

the anticipated financial impacts of climate-related risks and opportunities reasonably expected by the entity.

This Standard provides an exemption from this disclosure requirement in an entity's first reporting period and second reporting period.

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Adoption provision 4: Scope 3 GHG emissions

17. Paragraph 22(a)(iii) of NZ CS 1 requires the following disclosure:

greenhouse gas (GHG) emissions: gross emissions in metric tonnes of carbon dioxide equivalent (CO₂e) classified as scope 3.

Although disclosure of *scope 3 greenhouse gas (GHG) emissions* is encouraged for all entities on adoption of Aotearoa New Zealand Climate Standards, this Standard provides an exemption from this disclosure requirement in an entity's first reporting period and second reporting period. An entity may choose to apply the adoption provision in this paragraph to all its scope 3 GHG emissions sources, or a selected subset of its scope 3 GHG emissions sources. If an entity discloses a selected subset of its scope 3 GHG emission sources, it must identify which sources it has not disclosed.

Adoption provision 5: Comparatives for Scope 3 GHG emissions

18. Paragraph 40 of NZ CS 3 *General Requirements for Climate-related Disclosures* requires the following disclosure:

For each metric disclosed in the current reporting period an entity must disclose comparative information for the immediately preceding two reporting periods.

If an entity elects to use the adoption provision in paragraph 17, this Standard provides an exemption from providing comparative information for scope 3 GHG emissions in an entity's ~~second~~ third reporting period.
19. If an entity elects to use the adoption provision in paragraph 17, this Standard permits an entity to provide one year of comparative information for scope 3 GHG emissions in an entity's ~~third~~ fourth reporting period.
- 19.1 If an entity elects to use the adoption provision in paragraph 17 only for its first reporting period, this Standard allows an entity to exclude comparative information for scope 3 GHG emissions

in its second reporting period and permits an entity to provide one year of comparative information for scope 3 GHG emissions in its third reporting period.

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Adoption provision 7: Analysis of trends

22. Paragraph 42 of NZ CS 3 requires the following disclosure:

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.

This Standard provides an exemption from this disclosure requirement in an entity's first and second reporting period.

22.1 If an entity elects to use the adoption provision in paragraph 17 for its first reporting period and second reporting period this Standard allows an entity to exclude an analysis of main trends (see paragraph 22) for scope 3 GHG emissions in an entity's first reporting period, second reporting period and third reporting period.

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Assurance of GHG emissions disclosures

Adoption provision 8: Scope 3 GHG emissions assurance

24. For accounting periods ending before 31 December 2025, this adoption provision allows an entity to exclude its scope 3 GHG emissions disclosures from the scope of the assurance engagement (see paragraphs 25, 26(a)(iii), 26(b) and 26(c) of NZ CS 1). This means that the assurance of the entity's scope 3 GHG emissions disclosures will apply in relation to accounting periods ending on or after 31 December 2025.

25. For the avoidance of doubt, if adoption provision 8 is used, the entity's scope 1 and scope 2 GHG emissions disclosures must be the subject of an assurance engagement (see paragraphs 25, 26(a)(i) and (ii), 26(b) and 26(c) of NZ CS 1).

Use of adoption provision 8

26. If an entity elects not to use adoption provision 4 it may still use adoption provision 8. In such a case, this Standard requires an entity to clearly identify that its scope 3 GHG emissions disclosures have not been mandatorily assured.

A new defined term 'fourth reporting period' is added to Appendix A. New text is underlined.

Appendix A Defined terms

This appendix is an integral part of NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* 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.

...

fourth reporting period The reporting period immediately following an entity's third reporting period in which an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards.

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The headings in Appendix B are amended. Paragraphs B2 to B5 are added including their related headings. New text is underlined and deleted text is struck through.

Appendix B

Application date Commencement and application

This appendix is an integral part of NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* and has the same authority as the other parts of this Standard.

Application date Commencement and application

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Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024

B2. Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024, published in November 2024, amended paragraphs 7, 8, 12, 17, 18 and 19 and added paragraphs 1.1, 8.1, 19.1, 22.1, 24, 25, 26 and a new defined term 'fourth reporting period' to Appendix A. An entity must apply those amendments in accordance with the commencement and application date provisions in paragraphs B3 to B5.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

B3. This amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 27 November 2024 and takes effect on 25 December 2024.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

B4. The accounting periods in relation to which this amending Standard commences to apply are those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

B5. In paragraph B4:

mandatory date means 1 January 2024.

Section entitled Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024 is added to the Basis for Conclusions on NZ CS 2

Paragraphs BC30 to BC57 are added including their related headings.

New text is underlined.

Basis for Conclusions on NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*

This Basis for Conclusions accompanies, but is not part of, NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*.

[...]

Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024

Reasons for amendments

- BC30. During 2024, the XRB was made aware of challenges and concerns relating to the implementation of Aotearoa New Zealand Climate Standards (NZ CS). Stakeholders advised they were facing challenges with obtaining reliable data, high costs, and how to disclose in the absence of comprehensive guidance on certain topics. Stakeholders also shared challenges relating to assurance over scope 3 GHG emissions disclosures because of difficulties in obtaining sufficient reliable data from up and downstream entities.
- BC31. Responding to the implementation challenges and concerns raised by stakeholders, in October 2024, the XRB Board issued Exposure Draft – Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024. In the exposure draft, the XRB Board proposed amending NZ CS 2 as follows:
- (a) a one-year extension to the adoption provision for scope 3 GHG emissions disclosures;
 - (b) a new one-year adoption provision relating to the assurance of scope 3 GHG emissions disclosures;
 - (c) a one-year extension to the adoption provision for anticipated financial impacts disclosures; and
 - (d) a one-year extension to the adoption provision for transition planning disclosures.
- BC32. The XRB Board at the same time also issued Exposure Draft – Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2024. This exposure draft proposed amendments to NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures as a result of the proposed new one-year adoption provision relating to the assurance of scope 3 GHG emissions in NZ CS 2.

Response to consultation

- BC33. The XRB Board received 106 written responses to the consultation. During the consultation period the XRB held six online feedback sessions, with 55 attendees across the six sessions. The XRB also held eight targeted workshops and meetings to seek feedback from the following stakeholders:
- (a) XRAP;¹
 - (b) the Climate and ESG Committee of the Financial Services Council;
 - (c) the Institute of Directors;
 - (d) Data providers; and
 - (e) Assurance practitioners.

Scope 3 Greenhouse Gas Emissions Disclosures

- BC34. Most respondents agreed with the XRB Board's proposal to extend the existing adoption provision for the disclosure of scope 3 GHG emissions by one more year. Respondents noted that the extension would allow for more accurate, reliable, and quality data to be available. Many respondents commented that the extension would allow time for them to put in place effective controls, processes and systems to collect and report on their scope 3 GHG emissions.

¹ The External Reporting Advisory Panel (XRAP) provides a forum where the XRB can consult with individuals and representatives of organisations affected by XRB work.

- BC35. Managed investment scheme managers (MIS managers) expressed concerns with their ability to assess the reliability of data, noting that a large portion of their scope 3 GHG emissions are estimated by third party data providers. MIS managers emphasised the need to provide enough time for the level of company-reported emissions data to mature so that MIS managers can draw from more accurate and reliable data sources. They noted that this would give assurance practitioners and end users of the climate statements greater certainty over the data disclosed.
- BC36. Some respondents did not agree with the XRB Board's proposal. Some of the reasons provided by these respondents included:
- (a) users and entities need the information about scope 3 GHG emissions now to support the allocation of capital to a low-emissions, climate-resilient future;
 - (b) a further delay risks entities doing nothing or making decisions to de-prioritise work and be in the same place in a year's time;
 - (c) entities will learn by doing i.e., the journey of improvement only starts once scope 3 GHG emissions reporting commences, and the entity understands where further refinement is needed; and
 - (d) scope 3 GHG emissions are an important metric to assess transition risk within the value chain.
- BC37. The XRB Board decided on balance to proceed with the one-year extension to the adoption provision for scope 3 GHG emissions disclosures as proposed. However, when deciding on the additional one-year relief, the XRB Board noted that the data issues and collection challenges identified by stakeholders will not all be resolved in a year and may continue for some time into the future. The XRB Board noted that by nature, scope 3 GHG emissions contain high levels of estimation and uncertainty and that NZ CS acknowledges and allows for this (for example, disclosures on any exclusions, disclosure of methods and assumptions and level of uncertainty). The XRB Board noted that one additional year will allow entities more time to put in place effective controls, processes and systems to collect and report on their scope 3 GHG emissions. It will also allow the XRB time to provide further implementation support to entities disclosing scope 3 GHG emissions.

Assurance of Scope 3 Greenhouse Gas Emissions Disclosures

- BC38. Most respondents indicated strong support for the XRB Board's proposed inclusion of a new adoption provision that gives relief before the entity is required to obtain assurance over their scope 3 GHG emissions disclosures. Respondents supported this delay to enable entities time to put in place effective controls, processes and systems to collect and report on their scope 3 GHG emissions.
- BC39. However, there were mixed views as to whether a one-year delay would be long enough to enable systems to mature adequately to support the availability of appropriate sufficient evidence for an assurance engagement. Some respondents agreed that one year would be enough time, some respondents were unsure or held no view about the appropriate length of time, while some did not agree that one year would be sufficient. A few respondents reflected that their entity would not disclose their GHG emissions without obtaining assurance. Many of the respondents who wanted to delay the assurance for more than one year also requested a delay in the disclosure of scope 3 GHG emissions for longer than one year.
- BC40. MIS managers expressed concerns about the ability to obtain reliable data from third-party data providers and whether a one-year delay would be sufficient. However, during the consultation, XRB staff heard from third party data providers that they are moving at pace to address these matters and that the opportunity for assurance practitioners to rely on service organisation control reports covering the description, design and operating effectiveness of controls² will be available within the year.

² Service organisation control reports are assurance reports issued in regard to the controls in place over a third party system or service. It enables an assurance practitioner to place trust and confidence in the data outputs from that third party as another practitioner has assured the controls.

- BC41. A few respondents expressed a concern at a lack (or perceived lack) of capacity and capability in the assurance market to provide the required assurance engagements. Assurance practitioners submitted that there is adequate resource.
- BC42. The XRB Board decided to proceed with an optional delay in assurance of scope 3 GHG emissions disclosures by one year to recognise the current challenges in obtaining sufficient reliable information. However, it notes that, given the nature of scope 3 GHG emissions disclosure, there will always be inherent uncertainty and a high degree of estimation. For the avoidance of doubt, if the adoption provision is used by the entity, the scope 1 and scope 2 GHG emissions disclosures shall be the subject of an assurance engagement.
- BC43. The XRB Board is committed to supporting the implementation of the assurance over GHG emissions disclosures and is developing guidance for both preparers and assurance practitioners.
- BC44. The XRB Board also understands that the Financial Markets Authority will undertake targeted consultation in December 2024 on a possible class exemption to ensure the new one-year adoption provision relating to the assurance of scope 3 GHG emissions can be implemented with complete certainty by climate reporting entities. The FMA is considering exemption relief for one year for those entities in 2025 who disclose their scope 3 GHG emissions but do not have them assured, to complement the XRB relief.

Anticipated Financial Impacts Disclosures

- BC45. Respondents strongly supported allowing more time for the underlying analysis relating to anticipated financial impacts disclosures. They noted that this would allow for more robust processes to be put in place, and data to be gathered, which would lead to higher-quality, more trusted disclosures. MIS managers in particular expressed concerns with their ability to do this type of analysis. They broadly supported the proposal (with some noting that they intended to make use of the 'unable to disclose quantitative information' ability in paragraph 15(d) of NZ CS 1).
- BC46. Respondents strongly supported further guidance be issued by the XRB Board on this topic. Many requested that this be internationally aligned, delivered promptly and well targeted.
- BC47. Some professional service providers noted that while further guidance would be welcome, they were of the view that learning-by-doing is an important part of the regime. They noted that, for example, the experience to date with scenario analysis is that starting early and learning is important and preferable to delay. Some noted that the data, tools and methods already exist for entities to draw from while others reiterated the complexity of the analysis in this area.
- BC48. The key issue for the XRB Board to consider was whether more time would result in entities delaying their assessment, or enable better assessments. There is a risk that maturity does not grow if the time is not utilised by entities to learn-by-doing. If the work is simply pushed back by a year, then when entities come to disclose, they will find they are unprepared, potentially leading to lower quality disclosure. However, a lack of adequate guidance is a compelling reason for allowing more time and therefore the XRB Board decided to provide the additional year as proposed. The XRB is committed to prioritising further guidance for release in 2025, engaging with international standard setters, and with entities to encourage learning-by-doing and knowledge sharing.

Transition Planning Disclosures

- BC49. Most respondents supported extending the adoption provision regarding transition planning disclosures for a second reporting period. However, most of these supportive submissions appeared to base their support on an understanding that this disclosure requires a fully-fledged, certain and finished 'plan', rather than an understanding that it is an iterative and dynamic process, with the disclosure reflecting this over time.
- BC50. Some respondents, comprised of primary users, practitioners, and entities who had already started transition planning, provided a different perspective. They described transition planning as an iterative and dynamic process, and a key conversation starter, both internally and with primary users. These respondents provided a strong theme of learning-by-doing, with some noting that transition planning will be a "work in progress for the foreseeable future" and an

important tool to improve business decision making and capital allocation, therefore strongly contributing to the purpose of the climate reporting regime as a whole.

- BC51. Primary users indicated in their submissions that they see this disclosure as critical to assess entities' maturity and level of commitment, and what the entities are doing to avoid capital misallocation while refining their long-term transition plan. Primary users expressed expectations aligned with this continuous improvement approach of transition planning, and while more guidance might be needed in the future as entities progress, the guidance readily available is sufficient for most entities to start disclosing useful information to their primary users.
- BC52. Primary users raised concerns that they needed more information regarding entities' transition planning progress and maturity than was disclosed in the first year by some entities under paragraph 16 of NZ CS 2. As expressed in paragraph BC 16 of NZ CS 2, transition planning plays an important role in an entity's ability to build resilience to climate change and in communicating specific actions taken to reduce emissions. Any further delay in starting transition planning work and disclosure could result in adverse effects contrary to the stated aim of NZ CS to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.
- BC53. The XRB Board has decided not to proceed with the proposal to provide an additional year for transition planning disclosures on the basis of hearing strong primary user demand for this information and to avoid accumulating broader risks for the financial system if this information was not disclosed. The XRB has already issued guidance on transition planning and further guidance will be issued by Q1 2025. The XRB will emphasise that transition planning is an ongoing iterative and dynamic process.

Small number of requests for further time than proposed

- BC54. Some respondents (mostly climate reporting entities) made requests for further time than the proposals. The XRB Board considered these requests closely both as an overarching consideration and specifically in relation to each of the proposals.
- BC55. Overall, the XRB Board's view was that to most appropriately balance information demands from primary users, the availability of methods, support, guidance, and costs and benefits, a one-year extension for these proposals was generally most appropriate. In relation to transition planning, the urgency and nature of the information (iterative, rather than 'finished'), means it can be provided without further delay.
- BC56. Some respondents emphasised the importance of aligning the timing of disclosure requirements with international climate reporting regimes, particularly that of Australia. In support, some cited the fact their parent companies had incoming disclosure requirements in Australia, data quality benefits, market capacity and the potential to reduce costs. During the consultation process, XRB staff engagement found that the planned introduction of regimes in other jurisdictions, particularly Australia, will influence the New Zealand regime. Specifically, it will drive significant improvements in data availability and transparency for New Zealand entities and professional service providers in the very near future.
- BC57. The XRB Board also considers that some of the perceived benefits of alignment cited by respondents relate much more to aligning substantive disclosure requirements rather than timing alone. These are broader questions outside the scope of this consultation, but important questions that the XRB Board intends to consider in 2025 as part of the previously signalled post-implementation review.