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Dear XRB members,

We appreciate the invitation to offer information about the value of international alignment to climate reporting entities and primary users of climate statements in relation to the *Aotearoa New Zealand Climate Standards (NZ CS)*. We have not responded to all aspects of the NZ CS or all questions in the Request for information; we have responded only to those matters for which we have specific comments.

Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight. Grant Thornton's response reflects our position as auditors and business advisers to the New Zealand, Australian, and international business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are the leading business advisor to mid-market businesses internationally.

Many of the medium sized businesses that we support across the globe are increasingly subject to jurisdictional specific sustainability and climate reporting requirements. Greater clarity and international alignment will likely reduce practical challenges for medium sized businesses to comply with both Australian, New Zealand and international sustainability reporting requirements.

This response reflects the views of both Grant Thornton Australia and Grant Thornton New Zealand, acknowledging the close relationship between reporting entities in both jurisdictions.

Although this consultation is focused on international alignment, our comments also consider AASB S2 alignment alongside broader international alignment to IFRS S2 and the ISSB standards. We fully acknowledge that AASB S2 is not fully aligned to the ISSB standards, however other than the requirement for industry-based metrics and the requirement to refer to and consider disclosure topics in the SASB standards, we find AASB S2 is largely aligned to IFRS S2.

### **Benefits of trans-Tasman alignment**

We consider that there would be significant benefits, relative to the associated costs, from aligning NZ CS to AASB S2. We are very conscious of the number of entities that may be affected by both the New Zealand Climate-related disclosures (CRD) regime and the Australian mandatory climate-related financial disclosures regime. We consider these benefits to include:

- Reduced barriers for ASX and NZX dual-listing
- Broad AASB S2 applicability to NZ entities
- Increased talent mobility for NZ accountants and auditors

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### **Reduced barriers for ASX and NZX dual-listing**

Multiple NZX-listed entities are also ASX-listed, with some of these entities considering the NZX as their secondary listing. We note that relief is provided for overseas entities also listed on NZX without a large presence in New Zealand, however, this relief does not include all entities with a secondary listing on NZX. NZX listed entities have already been considered climate reporting entities (CREs) under the current climate reporting regime in New Zealand, and we acknowledge that for those entities, this has, to some extent, prepared them well for the incoming Australian climate reporting regime that took effect from 1 January 2025.

However, this presents a new challenge for these dual-listed entities, in that entities that were already reporting under NZ CS and have established processes which met the requirements of NZ CS, now need to align these with processes and controls to also meet the requirements of AASB S2 and the Australian Corporations Act.

From our experience in advising such entities, we are finding this task unnecessarily complex due to the lack of alignment between the NZ CS and IFRS S2. While prima facie, the two standards may appear similar, we find there are consistently differences in definitions or specific details in NZ CS wording that create operational challenges when attempting to implement a singular sustainability reporting process that complies with both sets of standards. Additionally, this creates documentation challenges for preparing the sustainability records required by the Australian Corporations Act to support AASB S2 disclosures, and CRD records required by the Financial Markets Conduct Act.

Furthermore, any Australian entities considering a NZX listing would benefit from trans-Tasman alignment, as they would not be required to substantially rework their Australian disclosures to meet the FMA requirements. As the Australian legislation affects both listed and unlisted entities, any Australian entity considering a NZX listing is likely to be already captured by the Australian reporting requirements.

Finally, we are concerned that the lack of trans-Tasman alignment might incentivise a dual-listed entity with a large presence in New Zealand to de-list from the NZX, in order to reduce the complexity of their sustainability reporting requirements, and associated cost of compliance. This would, in our view, be contrary to the FMA and XRB's initial intentions in developing the CRD regime.

### **Broad AASB S2 applicability to NZ entities**

In practice, as AASB S2 is a fair presentation standard with far broader general requirements compared to NZ CS, entities required to prepare reporting under both standards will tend to focus on the "higher" level of compliance required by AASB S2. This is also enhanced by the broader scope of assurance required in Australia.

Moreover, as Australian legislation affects consolidated entities headquartered in Australia, there are many New Zealand based subsidiaries of Australian companies that will be required to prepare AASB S2 aligned information to facilitate their parent entity's reporting obligations. At present, the extent of the NZ CRD regime is limited to listed entities and large financial institutions, a comparatively smaller subset of entities compared to the companies affected in Australia. We expect in time, that the number of New Zealand subsidiaries required to prepare AASB S2-aligned reporting may exceed the number of entities currently required to report under NZ CRD.

Furthermore, as New Zealand is a relatively small economy in a global context, most international entities operating in New Zealand will also likely have consolidated sustainability reporting requirements in other jurisdictions (e.g. UK, Japan, Canada).

Should the New Zealand government wish in future to extend the CRD policy to other unlisted entities, it would be beneficial for there to be trans-Tasman and international alignment to reduce the compliance burden for unlisted New Zealand entities.

### **Increased talent mobility for NZ accountants and auditors**

Another benefit of trans-Tasman alignment is that this would facilitate the talent mobility of Australian and New Zealand accountants and auditors. At present, financial accountants in both jurisdictions benefit from limited financial reporting and assurance differences between Australian and New Zealand financial reporting standards. This enables cross-jurisdictional finance teams and enables sharing of resources between the two countries.

However, the lack of trans-Tasman alignment between NZ CS and AASB S2 creates a barrier to talent mobility and resource sharing, requiring additional investment in training and capacity building in both countries. As a case in point, Grant Thornton Australia provided training to Grant Thornton New Zealand employees in order to enable cross-border working arrangements between our two firms. We are aware of similar considerations being contemplated by other Australian entities that have New Zealand subsidiaries.

This is particularly important given the global shortage of qualified accountants and auditors in sustainability. As one of the “pure” IFRS-aligned jurisdictions, New Zealand accountants have historically been in high demand internationally. Improving alignment of NZ CS with the broader international baseline enables global demand for New Zealand accountants and auditors to continue.

### **Improving international comparability of investor-focused information**

The overarching aim of this post-implementation review is to determine whether the standards are meeting the needs of both New Zealand CREs and their primary users, to achieve the stated purpose of climate reporting as per section 19B of the Financial Reporting Act 2013 (FR Act) and the objective and ultimate aim of NZ CS. The purpose stated under 19B of the FR Act includes to ‘enable investors and other stakeholders to assess the merits of how entities are considering those risks and opportunities’.

While we acknowledge that New Zealand was one of the first jurisdictions to implement CRD, since the release of the ISSB standards in June 2023, global adoption of the ISSB standards, in some form, is gaining pace. At the time of writing, there are now 36 jurisdictions that have decided to use, or are taking steps to introduce the ISSB standards in their legal or regulatory frameworks.

Consequently, it is increasingly likely that international investors will expect ISSB aligned disclosures as part of the information to make capital allocation decisions in future. Entities that have two sets of disclosures, reporting under IFRS S2-aligned disclosures and NZ CS disclosures, will present information differently to the primary users of their financial reports.

It is challenging at present, to prepare a single set of climate-related disclosures that complies with both IFRS S2 and NZ CS. The resulting hybrid report may be confusing and burdensome for primary users to understand the information presented. Alternatively, New Zealand CREs may find it easier to present a separate NZ CS report, prepared for NZ CRD compliance, separate to an internationally aligned ISSB report or IFRS S2 report. This would in practice, change the NZ CS-aligned disclosures to be compliance focused rather than presenting decision-useful information.

Additionally, an entity that is considering public listing would consider the benefits and disadvantages of each of the exchange listing rules. The lack of alignment in NZ CS may be a deterrent to entities, on the basis that such disclosures would not meet the information needs or expectations of global investors. Such disclosures may, over time, also not meet the decision-making needs of New Zealand based investors. As international sustainability reporting continues to align to the ISSB standards, New Zealand investors may also find it frustrating to compare NZ CRD against IFRS S2-aligned disclosures, particularly in metrics such as greenhouse gas emissions not measured using the Greenhouse Gas Protocol.

Accordingly, we consider international alignment in climate disclosures critical to continuing to achieve the policy objective of climate disclosures in New Zealand, and to continue supporting making New Zealand an attractive destination for international capital.

### **Specific challenges with interoperability**

Although the XRB has previously concluded that there is “a high degree of interoperability between NZ CS and the TCFD recommendations and the ISSB standards”, when working with clients seeking to align their climate disclosures between IFRS S2 and NZ CS, we have identified the following key areas of difference which present challenges and we consider improved international alignment would be beneficial. The following areas refer to IFRS S2, as the focus of this request is international alignment, with some references to AASB S2 where it would aid understanding.

#### **Strategy: Climate-related impacts v effects**

When requiring entities to disclose how climate change will affect the reporting entity, NZ CS and IFRS S2 use different terms, referring to ‘climate-related impacts’ compared with the ‘effects’ of climate-related risks and opportunities.

NZ CS1 uses the term ‘climate-related impacts’, impacts are defined in Appendix A as ‘the effects (also referred to as consequences or outcomes) of climate change occurring for an entity. These effects will, in turn, depend on the impacts of climate change on the broader socioeconomic and ecological systems an entity operates within (including an entity’s value chain)’

IFRS S2 (and AASB S2 accordingly) refers instead to the ‘effects of those climate-related risk and opportunities’ that could reasonably be expected to affect the entity’s prospects.

Looking specifically at the strategy disclosures, NZ CS1.11 requires disclosure of an entity’s ‘current climate-related *impacts*’ and ‘the anticipated *impacts* of climate-related risks and opportunities.’ Whereas IFRS S2.9 requires entities to disclose the climate-related risks and opportunities that could reasonably be expected to affect the entity’s prospects and specifies what specific current and anticipated *effects* the entity must disclose. Specifically, on the entity’s business model and value chain (IFRS S2.9(b)), the entity’s strategy and decision-making (IFRS S2.9(c)), or on the entity’s financial position, financial performance and cash flows for the reporting period and over the short, medium and long term (IFRS S2.9(d)).

This presents interoperability challenges for preparers, as, through the use of a different term (where effect is commonly a more descriptive and broader term and impact commonly denotes something of significance and magnitude), this requires entities disclosing in accordance with both reporting frameworks to consider both terms simultaneously during their risk and opportunity identification process, or to revisit and reframe the process a second time. The preparer’s interpretation of ‘effects’ vs ‘impacts’ could lead to different initial long-lists of climate-related risks and opportunities, as those following NZ CS may focus excessively on financial impacts due to the reference to ‘impacts’. This also increases the likelihood that entities assume a requirement for a double materiality (i.e. impact and financial materiality) approach to NZ CS.

Our recommendation is for NZ CS to align with IFRS S2 and use the phrase ‘effects’ instead of ‘impacts’ to improve the interoperability of the standards.

#### **Strategy: Scenario Analysis**

There are three key areas of difference between NZ CS and IFRS S2 & AASB S2 regarding climate-related scenario analysis. Climate-related scenario analysis is required for different purposes in the standards, primarily for risk and opportunity identification in NZ CS and primarily for resilience assessment in IFRS S2. Accordingly, it is applied at different stages of an entity’s climate risk assessment processes. Secondly, IFRS S2 offers guidance on an entity’s approach to scenario analysis within the standard, NZ CS does not include this within the standard itself. Finally, considering AASB S2, NZ CS requires three scenarios, whereas the Corporations Act in Australia requires two.

Area 1. Under NZ CS1.13 an entity must undertake scenario analysis to help identify its climate-related risks and opportunities and better understand the resilience of its business model and strategy. NZ CS1.11(b) requires a description of the scenario analysis the entity has undertaken and NZ CS3.51 details that this includes the methods and assumptions underlying the scenarios used and the scenario analysis process employed.

IFRS S2 (and AASB S2) does not require scenario analysis to be used for climate-related risk and opportunity identification but requires an entity to use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances. IFRS S2.22(a) requires the disclosure of how the entity would need to respond to the effects identified in the scenario analysis, and the availability and flexibility of the entity's existing financial resources to do so. IFRS S2.22(b) requires entities to disclose when (in terms of which reporting period) and how the scenario analysis was carried out, including the inputs and assumptions.

Although the disclosure requirements of the methods and assumptions used and made in the analysis may have similarities, the purpose of scenario analysis differs in the NZ CS and IFRS S2.

This presents interoperability challenges for preparers complying with both standards because, by requiring both a thorough assessment of climate resilience and risk and opportunity identification, preparers may not fully address the requirements of one of the standards by seeking to achieve both objectives in one scenario analysis process. This may present a significant learning curve for preparers that, having previously complied with NZ CS may be unfamiliar with using scenario analysis to assess the resilience of their strategy. Additionally, by combining these two objectives into one process this may present challenges for auditors which may be presented with muddled documentation which requires separating out.

We recommend that XRB include an additional requirement to use scenario analysis to assess the entity's resilience. IFRS S2 does not prevent entities from also using scenario analysis to identify their climate-related risks and opportunities. Including a resilience assessment requirement in NZ CS will reduce confusion from preparers on how and when to use scenario analysis. By requiring two processes, entities that have already been disclosing under NZ CS will not need to change their process to identify risks and opportunities using scenario analysis but instead can ensure they are complying with IFRS S2 in their second scenario analysis exercise.

Area 2. NZ CS is prescriptive in the number of scenarios an entity must use. NZ CS1.13 explains that an entity's scenario analysis must include 'at a minimum, a 1.5 degrees Celsius *climate-related scenario*, a 3 degrees Celsius or greater climate-related scenario, and a third climate-related scenario.' AASB S2 does not explicitly require either the number or type of scenario required. However, section 296D(2B)(b) of the Corporations Act (2001) does state that to meet the scenario analysis disclosure requirements, the entity must carry out the analysis using at least both of the following scenarios: an increase in global average temperature well exceeding 2 degrees Celsius above pre-industrial levels, an increase in global average temperature of 1.5 degrees Celsius above pre-industrial levels.

Of the scenarios an entity selects, NZ CS3.51a(iii) expands that the entity should explain 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.

This presents interoperability challenges for preparers because, if an entity uses the scenarios it develops under NZ CS to then satisfy the requirements under AASB S2, they will have to document all the assumptions, inputs and judgements for not only the two scenario types that are required in the Corporations Act, but also for a third scenario, and this will need to stand up to scrutiny from auditors. This includes, for AASB S2, documenting why the entity decided that its chosen climate-related scenarios are relevant to assessing its resilience to climate-related changes, developments or uncertainties. This means that any entities that have already been reporting under NZ CS may have to undergo a resource intensive process to ensure they have the appropriate documentation.

While IFRS S2 does not impose this requirement, in the interests of trans-Tasman alignment, it would, in our view, be beneficial for there to be alignment between Australian and New Zealand scenario requirements.

Area 3. IFRS S2 offers guidance on how an entity should approach scenario analysis. IFRS S2 Appendix B B8 details that an entity shall determine an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. The determination of the approach shall be informed by the assessments of the entity's exposure to climate-related risks and opportunities (paragraphs B4–B5) and its available skills, capabilities and resources (paragraphs B6–B7).

The XRB has released staff guidance documents on entity scenario development and sector scenario development, however there is not specific guidance incorporated within the NZ CS.

This presents interoperability challenges for preparers, as, by not incorporating a proportionality mechanism in relation to the approach an entity takes to scenario analysis, entities may struggle to justify taking a proportional approach whilst also complying with NZ CS.

We recommend offering additional guidance which incorporates a proportionality mechanism within NZ CS, particularly as climate-related scenario analysis can be a very daunting task for entities without prior experience.

### **General concepts: The Value Chain**

Another key difference between NZ CS and IFRS S2 is the treatment of the value chain. IFRS S2 requires entities to consider the whole value chain, whereas NZ CS permits entities to exclude parts of their value chain when identifying, assessing and managing climate-related risks.

IFRS S2 requires entities to consider the whole value chain. IFRS S2.13 specifically requires an entity to describe the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain, including a description of where in the entity's business model and value chain climate-related risks and opportunities are concentrated.

NZ CS.19(c) states that when an entity is describing its process for identifying, assessing and managing climate-related risks, it must include information on whether any parts of the value chain are excluded. NZ CS1.BC47 explains that 'when considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. In the XRB Board's view, disclosure of this information would support evaluations by primary users of an entity's overall risk profile and the quality and robustness of an entity's risk management activities. However, the XRB Board received feedback that this proposal may result in voluminous disclosures that would not be useful for primary users. Therefore, the XRB Board decided to require disclosure by an entity as to whether any parts of the value chain are excluded from its processes for identifying, assessing and managing climate-related risks.'

This presents interoperability challenges for auditors, particularly if New Zealand chooses in future to require assurance over the entire climate statement. By permitting entities to exclude some parts of the value chain when assessing their climate-related risks and opportunities, this may lead to entity's disclosures missing some information which would be material to primary users.

If the entity applies the principle of materiality, as explained in NZ CS3.27-39, disclosures are unlikely to become voluminous in a manner that is not useful for primary users, as if information on climate-related risks and opportunities is not material, they would not be included in the entity's disclosure. NZ CS3.39 elaborates here that information about the aggregate risk of several climate-related risks which would cause the same type of disruption and are individually highly unlikely to occur, might be material. By applying this, what could be a voluminous list of disclosures would be condensed to only cover material information. This principle is similarly described in AASB S2.B23 (taken from IFRS S1.B23). Accordingly, if New Zealand chooses to require assurance over the entire climate statement, the ability to exclude some parts of the value chain will create challenges for assurers to understand the reasoning behind these exclusions and how that intersects with the principle of materiality.

We recommend that the XRB align NZ CS with IFRS S2 by removing the ability for entities to exclude parts of the value chain when identifying, assessing and managing climate-related risks. As entities will need to consider the whole value chain, without exclusions, if they are disclosing against IFRS S2 and/or AASB S2, aligning with international standards should not increase the burden on reporting entities and would ensure that no material information is omitted or obscured.



## Metrics & Targets: Financed Emissions

Another area of difference between NZ CS and IFRS S2 is that IFRS S2 requires additional disclosures on financed emissions, whereas NZ CS does not.

IFRS S2.29a(vi) requires that entities disclose additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (*financed emissions*), if the entity's activities include asset management, commercial banking or insurance. The specific disclosures are outlined in IFRS S2.B58-B63. AASB S2 Appendix B explains that entities participating in financial activities face risks and opportunities related to the greenhouse gas emissions associated with those activities. Accordingly, the measurement of financed emissions serves as an indicator of an entity's exposure to climate-related risks and opportunities and how the entity might need to adapt its financial activities over time.

This presents interoperability challenges for preparers because, as GHG emissions currently need to be assured in both New Zealand and Australia, the differing requirements on financed emissions in each standard will increase the burden for preparers, particularly banks, insurers or asset managers, that will need to prepare significantly different documentation for their auditors. This is further complicated by scope 3 emissions assurance coming into force in New Zealand first, meaning that for future disclosures under AASB S2, preparers will need to add in additional details to their documentation.

The assurance of scope 3 emissions in New Zealand will apply in relation to accounting periods ending on or after 31 December 2025. In Australia, in the first annual reporting period in which an entity applies AASB S2, entities are permitted to use transition relief which means the entity is not required to disclose its Scope 3 emissions. Accordingly, scope 3 emissions are not assured until year two of reporting which for Group 1 entities will be 1 July 2026 - 30 June 2027. We recommend that NZ CS incorporate additional financed emissions disclosures to ensure that primary users will have sufficiently detailed information to inform their decision-making and to reduce the complexity of preparing very different assurance documentation. As entities will need to put in place sufficient data management systems to handle this additional disclosure when complying with requirements in Australia or internationally, incorporating a financed emissions requirement into NZ CS should not increase the burden for preparers.

## Developments in sustainability assurance

New Zealand and Australia differ in approaches to sustainability assurance by requiring assurance over different amounts of the sustainability report/climate statement and using different assurance standards.

Part 7A of the Financial Markets Conduct Act 2013 in New Zealand requires assurance for parts of climate statements relating to greenhouse gas emissions. NZ CS1.25 requires that this assurance engagement is a limited assurance engagement at minimum. The assurance standard which assurance practitioners must follow is NZ SAE 1, which allows the practitioner to comply with either ISO 14064-3 or ISAE (NZ) 3410. NZ SAE 1 was designed as a temporary standard whilst the XRB monitored international standards developments, government consultations and the first wave of NZ CS-aligned reports. One such international standard mentioned in the 'Basis for Conclusions on NZ SAE 1: Assurance Engagements over GHG emissions' is ISSA 5000.

The AUASB has issued ASSA 5000, based on ISSA 5000. In Australia, assurance is required over the whole sustainability report in a phased manner. For an entity's first reporting year, limited assurance is only required for governance disclosures, Scope 1 and Scope 2 emissions and strategy disclosures prepared for the purposes of complying with AASB S2.9(a), 10(a) and 10 (b). In addition to expanding limited assurance to the whole sustainability report, entities will require reasonable assurance from year 4 of reporting onwards, exact timelines will differ accordingly for Group 1, 2 or 3 entities.

This presents interoperability challenges for preparers and auditors by complicating the documentation process which preparers must undertake. The variance in approach to assurance and differing assurance standards applied amplifies the challenges caused by NZ CS' limited alignment with IFRS S2 by impacting the time-consuming, and therefore costly, processes of documentation. Preparers will be required to create different documentation using different terms of reference and concepts to comply with NZ CS and AASB S2. Using different assurance standards and different scopes of assurance also makes the assurance process challenging for preparers to understand how to appropriately comply and generates additional compliance costs by requiring the engagement of two different auditors.

We recommend aligning with the latest standard of ASSA 5000, considering NZ SAE 1 was intended as a temporary measure. By finding more international alignment in the disclosure areas addressed above, this will ease the separate documentation process which preparers are required to undertake.

Yours sincerely,

A blue ink signature of Andrew Rigele, consisting of stylized initials and a surname.

Andrew Rigele  
Managing Partner – ESG  
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A blue ink signature of Samantha Sing Key, written in a cursive style.

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