Proposed 2025 Amendments to Climate and Assurance Standards

Survey response 22

Company Name

Ernst & Young Limited

Should AP 4, AP 5, AP 7 and AP 8, which relate to the disclosure and assurance of scope 3 GHG emissions, be extended?

No

Please give a reason for your answer

Response on scope 3 emissions reporting: Voluntary and mandatory reporting regimes around the world have recognised the importance of disclosing scope 3 GHG emissions as a mechanism to provide a comprehensive view of the exposure of organisations to climate risk across their value chains, with scope 3 GHG emissions representing the significant majority of most organisations' emissions inventory. Despite the challenges that some have raised around scope 3 emissions, it is important to remember the original purpose and urgency associated with requiring this disclosure. We also believe that NZCS is consistent in its scope 3 reporting requirements when compared to the international and Australian standards, IFRS S2 and AASB S2. Our understanding is that NZCS, the associated Staff Guidance, and other publicly available resources address the issues outlined in the consultation document relating to scope 3 emissions reporting and so enable compliant reporting by all relevant entities. This is reinforced by the XRB's GHG assurance snapshot of September 2025, which showed 35% of MIS Managers and 27% of other CREs had early adopted and were already reporting all scope 3 emissions. In addition, over 60% of all CREs were already partially reporting scope 3 emissions, ahead of compulsory reporting. Accordingly, we do not believe an additional extension of the scope 3 emissions disclosure adoption provision is required to address any of the concerns outlined in the consultation document. Further extensions of the adoption provision will unfairly impact the significant number of CREs who have already invested in reporting this information and undermine the effectiveness of the NZ CS in delivering on the purpose of the Climate-related Disclosure Reporting Regime. Details to support our response: 1. NZCS's alignment to international standards and information in the NZCS and staff guidance: The Consultation document states: "New Zealand is potentially 'out of step' with international requirements. The ISSB has recently consulted on limiting the disclosure of financed emissions to those defined in IFRS S2, which excludes derivatives and other financial activities, including investment banking (facilitated emissions) and insurance underwriting (insurance-associated emissions). This means that disclosure of these emission sources is required under NZ CS but (potentially) not under IFRS S2. This is important for entities with an international parent, including an Australian parent." We have previously consulted with the XRB about the need for a specific exclusion for the emissions sources mentioned in the consultation (facilitated emissions, insurance-related emissions and emission from derivatives). The XRB confirmed that these emissions sources are already covered by the exclusion allowances in the NZCS and referenced section 3.2 of the recent Staff Guidance: Excluding GHG Emissions Sources: "There is no applicable method for quantification: There may be situations where there is no applicable method to quantify GHG emissions from a particular source. For example, PCAF allows exclusions for asset classes for which it has not yet developed a measurement standard. An entity could decide to exclude these GHG emissions, or the entity may consider developing its own estimation method, provided it is reasonable, transparent, and well documented." Both IFRS S2 and AASB S2 require the reporting of financed emissions, which are defined in Appendix A of those

Standards as the “portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an entity to the investee or counterparty”. For these in-scope financed emissions, international measurement approaches already exist, such as those set out in PCAF. The consultation seems to incorrectly suggest that reporting of in-scope financed emissions under NZCS is out of sync with international norms. As noted above, over one third of MIS Managers already report full scope 3 emissions. There are limited, if any, differences between most MIS Managers given the majority of emissions are calculated based on the investment portfolios and data is widely available for emissions from these investments. In addition, GHG calculation methodologies are well established as noted above. 2. The Consultation document does not discuss the importance of financed emissions as a key climate-related disclosure and whether the proposed continued delay undermines NZCS's ability to fulfil its stated purpose, which is (MBIE website): “The purpose of mandatory climate-related disclosures is to address climate change risks outlined in the National Climate Change Risk Assessment by making our financial system more resilient. It will also help New Zealand meet its international obligations to achieve net zero emissions by 2050.” “The goal of mandatory disclosures is to ensure that climate change effects are considered in business, investment, lending, and insurance decisions, help entities demonstrate responsibility in addressing climate issues, and lead to more efficient capital allocation for a sustainable, low-emissions economy. The goal of mandatory climate-related disclosures is to: ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions; help climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues; and lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.” By delaying reporting, it would defer the disclosure of information which primary users would find important for informed decision-making. 3. The XRB’s GHG emission guidance acknowledges "It is important to remember that one of the main reasons for measuring and disclosing GHG emissions information is to identify areas of risk and opportunity, rather than providing absolute precision. There are likely to be high levels of uncertainty, especially as practice evolves”. We agree that there will likely continue to be improvements in the GHG accounting in subsequent reporting periods but believe there is more than sufficient guidance for preparers to report meaningful scope 3 GHG now. If such guidance is not available for a particular emissions source, appropriate exemptions are available to allow non-reporting of these sources. Response on scope 3 emissions assurance: Our understanding is that scope 3 limited assurance is commonly provided without qualification in New Zealand and internationally. This is supported by the XRB’s September 2025 GHG assurance snapshot, which showed all assurance statements had been issued without qualification, including those covering financed emissions. For this reason, we do not think the issues raised in the consultation have actually resulted in significant challenges in providing assurance. As a result, we consider that the stated matters do not require the adoption provision over scope 3 assurance to be extended further. Details to support our response: 1. The consultation misrepresents or omits information provided by EY during a targeted follow-up meeting. We understand that other major assurance providers shared views similar to our those outlined below. The consultation states: “During our targeted follow-up meetings, we heard that: • SOC 2 reports, which cover the description, design, and operating effectiveness of controls, are still not widely available. The extension of assurance requirements was based on the expectation that these reports would be available in 2025. However, we learned that these reports are either not available in a useful format or for useful periods and are unlikely to be available in 2026. Evidence may be obtained in other ways to support financed emissions disclosures, but this may have associated costs or resourcing impacts. • Scope 3 GHG emissions information can come from sources outside the entity’s control, such as suppliers. Systems to enable reliable data are still emerging. Some entities have received feedback that the current data quality may lead to a qualified assurance report, making assurance of limited value.” In our meeting with the XRB, EY clarified that SOC reports are not necessarily required for limited assurance engagements over financed emissions, as other testing procedures are available. We did not state that these not being available leads to additional associated costs or resourcing impacts. Furthermore, EY stated that all major assurance providers have already issued unqualified financed emissions assurance statements, both in New Zealand and internationally, providing clear evidence that it is possible to provide limited assurance over financed emissions based on the current information available. On the second point, regarding assurance over information directly provided by value-chain providers, EY was not asked to respond to this issue. However, we are commonly asked to provide assurance over scope 3 information directly from a supplier. In these cases, if it is assessed as a key risk area, we assess the reasonableness of the estimate against independent and reputable information, assess whether a readily accessible and more accurate measurement approach exists and check the accuracy of the entity's disclosure on the calculation methodology, assumptions and uncertainties. Unless we find that the measurement approach is unreasonable, this does not result in a qualified assurance statement. Many examples of unqualified limited assurance statements over this scope 3 measurement approach already exist (as demonstrated in the XRB's September 2025 GHG assurance snapshot).

Should AP 2, which relates to anticipated financial impacts, be extended?

No

Please give a reason for your answer

Our response regarding Anticipated Financial Impacts (AFIs): Our understanding is that the identification of material climate-related risks and opportunities and their associated AFIs is the central disclosure item under all climate-related reporting regimes and one of the most relevant disclosures for primary users. Other disclosure areas within the Climate Statement (e.g. governance, risk management, transition planning and metrics & targets) should be based around those climate-related risks and opportunities with material AFIs. Extending the adoption provision to the AFIs of climate-related risks and opportunities undermines the effectiveness of NZ CS to deliver on the purpose of the Climate-related Disclosure Regime and would also put NZ CS out of sync with AASB S2 and IFRS S2, both which require reporting over AFIs from year one. It also unfairly disadvantages those CREs who have already invested in the reporting of AFIs within their Climate Statements. We believe that NZ CS 1 Paragraph 15(d) provides flexibility to a CRE to not provide a quantitative disclosure where this is seen as too complex or too insignificant from a proportional cost/benefit perspective, as long as the reason for the omission is provided in the disclosure. This allowance appears to already address the concerns raised in the Consultation document. Details to support our response: 1. NZCS's alignment to international standards The consultation document states: “The XRB aims to ensure our standards are aligned with internationally recognised standards. This approach ensures the credibility of our standards, and the consistency, and comparability of financial and non-financial information across borders, fosters investor and user confidence and supports efficient capital markets. However, in this context, recent developments suggest significant uncertainty about how international practice will evolve in relation to the disclosure of AFIs, including whether it will remain necessary to quantify AFIs. The ISSB very recently published educational material on the disclosure of AFIs to provide further clarity on their expectations of quantitative AFIs disclosure. This guidance has explained that IFRS S2 (and therefore AASB S2 which is based on IFRS S2) does not require entities to disclose quantitative AFIs information if: • The impacts are not separately identifiable. • The measurement uncertainty is so high that the resulting information would not be useful. • The company lacks the necessary skills, capabilities, or resources.” The consultation document refers to the reliefs that can be applied to the measurement of anticipated financial effects under IFRS S2 and AASB S2. However, this commentary does not fully explain the situation. Under IFRS S2 and AASB S2, it will remain necessary to quantify anticipated financial effects from year one, unless and only to the extent, that a relief applies. The first two reliefs apply depending on facts relating to measurement of the impact. The third relief is intended to be proportional to the entity's circumstances, which is expected to change over time as the entity's skills and capabilities develop. The consultation document seems to incorrectly suggest that NZ CS is out of sync with the recently published ISSB educational material, which we do not think is true, as the difference arises in relation to the reliefs permitted. IFRS S2 and AASB S2 have the reliefs mentioned above whereas the approach taken by NZ CS is set out in paragraph 15(d) of NZCS 1 which states: "If an entity cannot disclose quantitative information, an explanation of why that is the case is required." In the XRB's Comparison Document of NZCS and IFRS Sustainability Disclosure Standards (October 2023), the following observations are made "NZ CS does not include proportionality mechanisms. The principles-based approach to NZ CS was intended to recognise the skills, capabilities and size of New Zealand entities, and thus eliminate the need for explicit proportionality mechanisms. Consistent with that approach, paragraphs 11 and 14 of NZ CS 1 provide exemptions from quantifying current and anticipated financial impacts under NZ CS 1 if the entity is unable to do so, subject to providing an explanation of why that is the case." Furthermore, under IFRS S2 and AASB S2, if any of the reliefs are applied, an entity is required to apply the requirements in paragraph 21, which states: "If an entity determines that it need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity applying the criteria set out in paragraphs 19–20, the entity shall: (a) explain why it has not provided quantitative information; (b) provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that climate-related risk or opportunity; and (c) provide quantitative information about the combined financial effects of that climate-related risk or opportunity with other climate-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful."

Any other comments