

Proposed 2025 Amendments to Climate and Assurance Standards

Survey response 15

Company Name

Chartered Accountants Australia and New Zealand

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

CA ANZ has considered disclosure and assurance of scope 3 GHG emissions separately and submit that for: • disclosure requirements: no extension be provided; and • assurance requirements: a short extension of one year. We appreciate the connection between the adoption provisions relating to the disclosure and assurance of scope 3 GHG emissions. However, we consider it more appropriate to provide our comments on the extension of the adoption provisions for the disclosure and assurance of scope 3 GHG emissions separately. Whilst the wording of AP4, 5 and 7 relate to the number of reporting periods for an entity under the regime, the wording of AP8 relates to a specific accounting period by date. The XRB will need to consider the application of them for new CREs joining the regime in the future. The rationale provided for extending the adoption provisions is that more time is needed to provide guidance, however this rationale would not apply to CREs joining the regime in the future. We also note that as AP8 relates to specific accounting periods by date, the assurance of scope 3 GHG emissions could be required despite AP4 potentially enabling reporting to be deferred by four reporting periods. Extension to AP4, AP5 and AP7, Scope 3 GHG emissions We do not support extending the adoption provisions relating to the disclosure of scope 3 GHG emissions. We have heard from members, investors and users of this information that scope 3 GHG emissions disclosures are decision-useful, particularly for certain industry sectors. Additionally, some climate reporting entities (CREs) have already voluntarily disclosed scope 3 GHG emissions, as evidenced by the XRB's own research, and the remainder have begun work towards this. Members have also indicated that they have found the disclosure of GHG emissions generally to be easier in the second year of reporting. Given this feedback, we consider there is value in maintaining progress, and providing certainty for CREs, who are already investing in resources and processes to make these disclosures. Data from suppliers Part of the rationale for deferral noted in the Consultation Paper relates to concerns about obtaining sufficient reliable scope 3 GHG emissions data directly from suppliers or other parts of an entity's value chain. We consider it is important for the XRB to be clear to CREs in its communications that the many globally accepted and commonly used GHG measurement standards do not require entities to obtain direct scope 3 GHG emissions data. As the XRB's Staff guidance GHG emissions – Uncertainty and data quality notes, the NZ CS do not require a CRE to measure its GHG emissions using any particular standard or method. There are a range of options available, which give flexibility to enable a CRE to choose the most appropriate method for its circumstances. Under the commonly used GHG measurement standards, CREs can use various estimation techniques, including spend or activity-based methods, and emissions factors. Table 1 in the guidance includes information from suppliers as one of six possible options, noting it may be the most specific to the individual supplier but that all methods have sources of uncertainty. Financed emissions We note that six out of the eight issues noted in the Consultation Paper relate to financed, facilitated or insurance-associated emissions. This highlights the particular challenges for financial institutions with the disclosure of scope 3 GHG emissions. However, we note that the extent of the challenge is partially dependent on the choice of

GHG measurement standard. In particular, that the Partnership for Carbon Accounting Financials (PCAF) requires disclosure of scope 3 GHG emissions under financed emissions and the GHG Protocol only requires scope 1 and 2. Further, we note that the XRB's GHG assurance snapshot shows that of 84 Managed Investment Scheme (MIS) managers, 29 MIS reported full scope 3 GHG emissions and 22 MIS reported partial scope 3 GHG emissions. Therefore over 60% have chosen to voluntarily report all or some of their scope 3 GHG emissions. We also note that third-party data providers are responding to market demand to improve data collection speed and that most globally accepted and commonly used GHG measurement standards allow the use of prior year data as a "best estimate." Some members have also raised their expectation that data availability and quality will improve over time once disclosures have commenced. Given that the NZ CS do not prescribe a particular GHG measurement standard, we acknowledge it would be difficult for the XRB to identify a particular category (or categories) of scope 3 GHG emissions to be deferred. However, it does not seem appropriate to extend the adoption provisions for all scope 3 GHG emissions instead. Existing mechanisms

We also highlight the XRB's guidance which outlines that NZ CS allow exclusions of material GHG emissions sources, as long as these are justified and clearly disclosed. Two factors that would influence such decisions are noted as a lack of data and the absence of applicable methods.

International alignment The Consultation Paper notes a concern that NZ CS may be misaligned internationally in its requirements relating to scope 3 GHG emissions disclosures. However, the ISSB has cited a lack of established methodologies as a justification for the exclusion of derivatives, facilitated and insured emissions within their recent consultation on amendments to IFRS S2. This was also noted as not a change to the requirements but a clarification of the ISSB's original intent. Given this, we consider it reasonable for a CRE reporting under the NZ CS to take advantage of the provision within the standard to exclude a subset of scope 3 GHG emissions due to the 'absence of applicable methods.' The guidance also specifically notes that exclusions are permitted under NZ CS regardless of what is required under the chosen measurement standard.

Guidance availability As referenced above, the XRB's guidance on scope 3 GHG emissions published in June 2025 provides very useful information to support the disclosure under NZ CS. The IFRS Foundation also released further educational material in May 2025: Greenhouse Gas Emissions Disclosure Requirements Applying IFRS S2 Climate-related Disclosures which includes some questions and answers on areas including organisational boundary for the GHG Protocol. We note that although the XRB's outreach to CREs occurred in August, it is possible that CREs had not fully considered such newly available guidance at the time.

Recommended approach Given this provision, and the importance of this information to investors, our view is that the existing adoption provisions are sufficient, such that scope 3 GHG emissions should be disclosed in from a CRE's third reporting period.

Extension to AP8, Scope 3 GHG emissions assurance We do not support extending this adoption provision for a further two years. We have also heard from members that SOC 2 reports are not currently widely available, however as the XRB's guidance indicates, they are not a requirement. We also note that SOC 2 reports would be specific to the use of third-party data providers, which as noted above is not a requirement for scope 3 GHG emissions.

Existing practice The XRB's GHG Assurance Snapshot shows that 21 CREs disclosed all scope 1, 2 and 3 emissions, and that 17 of those had all scope 1, 2 and 3 GHG emissions disclosures assured. A further 28 CREs disclosed all scope 1 and 2 GHG emissions, and some scope 3 GHG emissions, and 13 of those had all GHG emissions assured. However, we note that no MIS managers obtained assurance over their scope 3 GHG emissions, despite over 60% voluntarily reporting some or all of their scope 3 GHG emissions.

Timing alignment with Australia We also note that part of the rationale for the deferral is to align the regime with Australia, but that the proposed extension period would mean that New Zealand's requirements for scope 3 GHG emissions assurance would come into force six months after the Australian regime. We also note that Appendix 1 in the Consultation Paper infers that scope 3 GHG emissions disclosures for Group 1 entities with December year ends would be deferred by 2 years, instead of the 1-year transitional period outlined in AASB S2. The assurance phasing table published by the AUASB specifically notes that scope 3 GHG emissions

disclosed by group 1 entities with December or March year-ends in year 2 would not be subject to assurance in their first year of reporting. Availability of guidance The XRB's staff guidance on GHG emissions: Uncertainty and data quality includes important considerations for assurance practitioners for scope 3 GHG emissions assurance. The majority of assurance practitioners in NZ are using ISAE (NZ) 3410 of the options provided in SAE 1. However, given the IAASB has withdrawn ISAE 3410, further guidance issued globally is likely to align to ISSA 5000 rather than ISAE 3410. For example, we have published A case study: Demystifying materiality in accordance with ISSA 5000. Therefore, we consider it unlikely that further information to support assurance practitioners with ISAE 3410 will become available, regardless of whether AP 8 is extended. Finally, we have clearly heard from our members, who include assurance practitioners, that assurance of scope 3 GHG emissions is achievable now, as reflected in the results of the XRB's assurance snapshot research. Recommended approach However, we acknowledge the specific challenges noted for financial institutions, their lack of voluntary assurance to date and the difficulty in specifically targeting an adoption provision to a particular category of scope 3 GHG emissions. Accordingly, we consider it reasonable for the assurance of scope 3 GHG emissions to be deferred by one additional year. Based on our earlier comments that the APs for scope 3 GHG emissions disclosure should not be extended, an additional year for AP8 would give CREs, who have used the existing AP4, to have one year of scope 3 GHG emissions disclosures before these disclosures are assured, in the same way as for scope 1 and 2 GHG emissions. This would provide time for CRE's systems and processes to improve through a year of reporting prior to assurance being required. Additionally, we note that any extension to AP8 will need to be supplemented by extension of the FMA class exemption and that the FMA's due process takes time. This would result in continued uncertainty for CREs until the FMA extends its class exemption.

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

Didn't answer question

Please give a reason for your answer

We have heard directly from investors that anticipated financial impacts are material to their decision making and important to all investors globally, including those invested in New Zealand. Given the importance of this information to primary users, and that some members have reported that those who are disclosing this information are able to access lower-cost capital as a result, we note that there is significant value in encouraging CREs to begin disclosing this information as soon as possible. Similarly to our earlier comments on scope 3 GHG emissions, we note that many CREs were expecting to disclose their anticipated financial impacts (AFI) in their third reporting period and so are well advanced with their work towards this. The recent guidance issued by the XRB in July 2025 provides helpful context. International alignment We note that part of the rationale for deferring anticipated financial impacts is to align with Australia's regime, but in this instance reporting entities under the Australian regime will be required to disclose anticipated financial effects from the first year of reporting. The Consultation Paper specifically notes that NZ CS 1 paragraph 15(d) allows CREs who are unable to quantify an anticipated financial impact to instead disclose why they are unable to quantify the financial impact. As the Consultation Paper also references, where quantitative data cannot be reliably sourced, qualitative information would be valuable to primary users. The Consultation Paper notes the significant uncertainty internationally in relation to the approach to anticipated financial impacts/effects. The multiple consultations on future aspects of the regime are creating a significant degree of uncertainty for New Zealand CREs and assurance practitioners. Our members have particularly highlighted the RFI issued by the XRB on international alignment of the standards. They reference the highlighted differences in the Consultation Paper between NZ CS requirements and those for ISSB and are concerned that they could invest significant time and effort in preparing disclosures aligned with NZ CS only for the XRB to change the standards in the near future in response to the feedback on international alignment. Then CREs would need to prepare entirely

different models to align with ISSB requirements. As the XRB's comparison document notes, NZ CS requires the disclosure of anticipated financial impacts before planned response whereas IFRS S2 does not. We have also heard from members that the approach in NZ CS is difficult for those CREs in the middle of implementing a transition plan. Additional guidance materials Members have also expressed concerns that the further guidance indicated in the Consultation Paper being developed by the XRB and the New Zealand Society of Actuaries may indicate a more detailed and complex approach than CREs were expecting. Recommended approach The basis outlined in the Consultation Paper for the two-year extension to AP2 is to allow guidance materials to become embedded and more clarity on international requirements to be available. We consider these two outputs to indicate different outcomes for reporting. The additional guidance would support disclosure in line with the current NZ CS requirements and clarity on international requirements could indicate a change in the NZ CS requirements to improve international alignment. Further, the XRB have indicated that feedback to the RFI indicated a strong preference for alignment to ISSB S2 and AASB S2 rather than ESRS alignment, so we are unclear as to what additional clarity the XRB are expecting in relation to international requirements. Therefore, it is difficult to answer a question around amending AP2 without a clear understanding as to the basis for deferring the requirements. If the requirements are to remain the same, we consider no need for amending AP2. The existing guidance is sufficient for CREs to begin reporting. However, if the intent is international alignment, then we support a deferral to enable NZ CS and supporting guidance to align with ISSB S2 requirements and avoid CREs wasting effort on requirements that will be superseded.

Any other comments

Over 80% of New Zealand's exports by value are exported to markets that have mandatory climate reporting in force or proposed. There is investor demand for this information globally, and investors have indicated that assured scope 3 GHG emissions disclosures and anticipated financial impacts disclosures are material and important to all investors globally including those invested in New Zealand. CA ANZ continues to be an advocate for, and supporter of, appropriate climate-related disclosures and reporting for decision-making. Enhanced disclosure facilitates more informed decision making, while enabling market forces to drive efficient allocation of capital and support a smooth and just transition to a net zero GHG emissions economy. While some of our members have expressed appreciation for the XRB's response to market concerns, we heard mixed views on extending the adoption provisions. Some members are concerned that any further delays could have unintended consequences, such as the de-prioritisation of the establishment of the relevant internal systems and data collection processes, particularly at such a late stage in the process. Uncertainty around Capital Market Reforms We are also aware that some concerns arise from the uncertain and forward-looking nature of scope 3 GHG emissions and anticipated financial impacts disclosures. Clarity on the outcomes of the 2024-25 Capital Market Reforms, consulted on by MBIE from December 2024 to February 2025, which included proposals for amended settings for director liability and changes to the thresholds will assist. We are concerned that amendments to the adoption provisions are not a viable nor temporary solution to the current uncertainty and delays in progressing the Capital Market Reforms. Further, part of the rationale in the Consultation Paper for extending the adoption provisions refers to the disproportionate impact on smaller CREs. As the Consultation Paper notes, the XRB can only consider differential reporting once the outcome of the Capital Market Reforms for the thresholds is determined. Differential reporting would lessen NZ CS disclosure requirements for certain types or sizes of entities. Uncertainty around international alignment Likewise, the XRB's consultation on international alignment and the FMA's current consultation on mutual recognition have also created uncertainty around the future of NZ CS and whether further amendments will be necessary to achieve international alignment. Impact of uncertainty Members have also raised the importance that changes to the regime are introduced in one go in order to allow the market to respond. The multiple consultations on the regime are creating a significant amount of market

uncertainty and we have heard very strongly that CREs and assurance practitioners are finding it difficult to know what is going to be needed for each reporting period. This uncertainty affects their ability to appropriately plan their resources. We are concerned that late extensions to the adoption provisions would present greater uncertainty rather than stability. Finally, whilst we acknowledge that the adoption provisions are optional for CREs, we note that they do set the minimum bar for the slowest market participants.