McGuinness Institute Submission

External Reporting Board (XRB)

Alignment with international standards: sustainability assurance, ethics and independence and using the work of an external expert

10 October 2025

1.0 Introduction

The McGuinness Institute (the Institute) welcomes the opportunity to submit on the below proposals to align New Zealand's standards with international standards (the proposals).

This consultation includes exposure drafts on:

1. ED International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)
2. ED International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))
3. ED Other Revisions to the Code Relating to Sustainability Assurance and Reporting
4. ED Revisions to the Code Addressing Using the Work an External Expert
5. ED Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2025.

We would like to thank the External Reporting Board (XRB) for inviting feedback on this important topic.

Sustainability reporting is a rapidly evolving field that encompasses multiple dimensions, making it inherently complex. The old adage that 'we manage what we measure' remains as relevant as ever. To be responsible stewards of our nation, we must begin by assessing our impact and then commit to improving outcomes for both present and future generations.

We acknowledge that directors, reporters and auditors may feel nervous about reporting data that they have low confidence in. This is an area that is developing fast. However, this makes it increasingly important that New Zealand develops a trustworthy reporting framework with quality assurance standards. Investors, the community and other stakeholders need useful information to navigate the challenges we face, especially as we try to mitigate and adapt to climate change.

A summary of the Institute's key recommendations can be found in Section 5.0 Conclusion.

Please do not hesitate to contact us if you have any further questions on the following ideas.

1.1 About the McGuinness Institute

The Institute was founded in 2004 as a non-partisan think tank working towards a sustainable future for Aotearoa New Zealand. Project 2058 is the Institute's flagship project focusing on Aotearoa New Zealand's long-term future. Our observation that foresight drives strategy, strategy requires reporting, and reporting shapes foresight, led the Institute to develop three interlinking policy projects: *ForesightNZ, StrategyNZ* and *ReportingNZ*. All three of these must align if we want Aotearoa New Zealand to develop durable, robust and forward-looking public policies.

The policy projects frame and feed into our research projects, which address a range of significant issues facing Aotearoa New Zealand. The 13 research projects include: *BiodiversityNZ, CivicsNZ, ClimateChangeNZ, ForesightNZ, OneOceanNZ, PandemicNZ, PublicScienceNZ, ReportingNZ, SecurityNZ, StrategyNZ, TacklingPovertyNZ, TalentNZ and WaterFuturesNZ*.

1.2 Relevant research by the Institute

For more detailed research the Institute has undertaken in this area, we recommend you read the following three working papers. They analyze how annual reports of NZSX-listed companies report on Non-GAAP Financial Information, climate statements, and carbon offsets:

1. ***Working Paper 2025/05 – Reviewing Non-GAAP Financial Information in Annual Reports and Market Announcements of NZSX-listed Companies*** (in press)[1]
   This paper examines and identifies the extent to which non-GAAP information is currently being presented in annual reports, and in some cases financial statements and NZX announcements. The relevance of this paper is that reporters are currently preparing a lot of additional information outside of GAAP that is not required by the XRB. They are doing this voluntarily and at considerable cost, without common terms that enable investors and other stakeholders to compare companies.

2. ***Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies***[2]
   This paper examines some aspects of recently published climate statements. It aims to contribute to research on how New Zealand might better report and manage climate risks and maximise opportunities in the transition to a low-carbon economy. It provides a quantitative assessment of the state of climate reporting in New Zealand through the lens of NZSX-listed companies that have published annual reports that mention NZ CS. This paper shows that scope 3 information can be prepared and is significant in terms of scale, and is therefore useful.

3. ***Working Paper 2025/07 – Analysing Carbon Offset Information Disclosed in 2021–2024 Annual Reports of NZSX-listed Companies*** (in press)[3]
   This paper examines and identifies the extent to which carbon offset information has been disclosed in the 2021–2024 annual reports of NZSX-listed companies. This paper demonstrates that the reporting of carbon offset information is a form of Anticipated Financial Impacts (AFIs). It suggests that more detailed reporting is needed to incentivise investment and ensure the most effective approach to carbon offsetting, and climate change mitigation as a whole, is adopted.

2.0 Level of climate change is unprecedented

The intensifying global transition toward low-emission technologies, as well as increases in defence spending, are driving a substantial increase in demand for critical minerals such as lithium, cobalt, and rare earth elements. This surge is resulting in both supply-chain vulnerabilities and pricing volatility, with implications for industries reliant on clean energy infrastructure. Simultaneously, the growing frequency and severity of climate-related events are contributing to population displacement and heightened immigration pressures.

Recent examples of extreme climate impacts include:

- 'In July [2025], Pakistan saw record-breaking heat, with temperatures in Chilas, in the mountains, 48.5C, which may have contributed to the flooding that followed.'[4]
- 'Extreme wildfire activity has more than doubled worldwide [in the last 21 years].'[5] These wildfires have had severe consequences for air quality, biodiversity and human health, and they continue to shape global discussions on climate resilience and emergency preparedness.
- 'More than 32,000 people have died trying to reach Europe in the past 10 years – including 1,300 dead or missing this year.'[6]
- 'Cyclone Gabrielle in 2023 and the Auckland Anniversary floods caused an estimated $14.5 billion in damage, of which insurers paid $3.8 billion in claims … global insured losses from natural catastrophes in 2025 are likely to surpass $100 billion for the seventh straight year … The largest single loss to date is the Los Angeles wildfire, with insured losses of more than $40 billion'.[7]

These shifts are straining local systems and amplifying demand for essential resources, including food and water, especially in regions already facing environmental stress.

With this context, it is unsurprising that the September 2025 *Mood of the Boardroom* survey revealed that 78% of chief executives in New Zealand report that their boards regularly assess geopolitical vulnerabilities as part of their risk matrix.[8] This reflects a growing recognition that global instability, from trade tensions and resource competition to climate-induced migration, is creating significant challenges for businesses. For this reason, the Institute considers all sustainability factors (including those that are difficult to report on) must be included in sustainability reporting in New Zealand. This information should be assured, trustworthy, and compliant with international standards. We cannot afford to ignore risks on the basis that they are too hard to quantify.

Below, we answer each of the consultation's specific questions in detail.

3.0 Specific questions

Please refer below to see the Institute's response to each of the specific questions on page 5 of *XRB consultation: International alignment* (the proposal document).

This section is divided into six parts:

A: Issue International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

B: Issue International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))

C: Issue *Revisions to the Code Addressing Using the Work an External Expert* applicable to all assurance engagements

D: Amend New Zealand Standard on Assurance Engagements 1 (NZ SAE 1)

G: Retain International Standard on Assurance Engagements (New Zealand) 3410 (ISAE (NZ) 3410)

H: Applicable date of all standards

A: International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

Q1: Do you agree with the proposal to adopt ISSA (NZ) 5000 in New Zealand?

Although sustainability is a complex area of reporting, there is urgency to develop and implement consistent climate assurance standards. The International Standard on Sustainability Assurance (ISSA 5000) is a globally endorsed sustainability standard. The ISSA 5000 'sets a global baseline for high-quality, consistent sustainability assurance for all practitioners. Effective December 15, 2026, with early adoption encouraged, ISSA 5000 applies to both mandatory and voluntary assurance engagements. It aims to reduce fragmentation and enhance trust in sustainability reporting."[9]

The consultation paper (p.8) clarifies how ISSA (NZ) 5000 will fit into the current framework:

> 'The XRB proposes to issue ISSA (NZ) 5000, based on ISSA 5000. We propose that assurance practitioners may use ISSA (NZ) 5000 for sustainability assurance engagements including:
> - **as an option for the mandatory assurance** of GHG emissions disclosures within our temporary standard, NZ SAE 1 (refer to section on Amend NZ SAE 1)
> - **for voluntary assurance** over other information included in the climate statements
> - **for voluntary assurance** over other reported sustainability information.' [bold added]

The Institute notes that sustainability information includes various elements which are difficult to quantify. This makes it very different to financial reporting, and thus makes designing assurance standards complex. This is reflected in the extract from p.8 of the ED ISSA 5000 below:

> '**For purposes of this ISSA (NZ), sustainability information is information about sustainability matters. An entity's disclosures about such matters may relate to several different topics (e.g., climate, labour practices, biodiversity) and aspects of topics (e.g., risks and opportunities, metrics and key performance indicators).** Law or regulation or sustainability reporting frameworks may describe sustainability matters, topics or aspects of topics in different ways, and may also provide requirements or guidance for the entity in determining the sustainability information to be reported.'[10] [bold added]

The Institute notes ISSA (NZ) 5000 is *optional* rather than *mandatory*. Though this enables flexibility, allowing for multiple frameworks (i.e. both NZ SEA 1, ISAE 3410 or ISSA (NZ) 5000) does cause inconsistency across assurance quality and may lead to confusion for both preparers and users of information. For reporting to be useful, the information should be accurate and consistent.

The Institute's concern is that too many options are being promoted at once. If we want to make New Zealand business climate-ready, having a consistent approach to assurance is good not just for preparers, but also for users and assurers.

Although we are suggesting ISSA (NZ) 5000 should be the only mandatory standard, we acknowledge that any one of the three standards may work. Our recommendation is that there should only be one standard that is being mandated by XRB (the other two should act as a guide to reporters, assurers and users).

Please note, the Institute have not completed a detailed analysis of content of each of the three standards being proposed (see below), but for the purposes of this submission we have suggested ISSA (NZ) 5000. For a definitive recommendation, more research would need to be undertaken and the Institute did not have the time or resources to undertake a detailed assessment of which one was best.

Page 12 of the consultation paper demonstrates the potential confusion created by allowing three possible options:

> 'Shall comply with either ISO 14064-3: 2019 Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements **or** ISAE (NZ) 3410 Assurance Engagements on Greenhouse Gas Statement **or** ISSA (NZ) 5000 General Requirements for Sustainability Assurance Engagements' [bold added].

The Institute recommends:

1. that CREs obligated to provide assurance for their climate statements should be mandatorily required to adopt ISSA (NZ) 5000. If CRE's wish to seek additional guidance, we suggest they read ISO 14064-3 and ISAE (NZ) 3410.

2. companies that report on greenhouse gases in their annual report should be mandatorily required to apply ISSA (NZ) 5000.

3. a clear timeline, support and tailored guidance should be provided for phasing out the older standards. This will improve accountability, usability and public trust in sustainability reporting.

Q2: Is your firm intending to transition to ISSA (NZ) 5000 for sustainability assurance engagements? If yes, when?

N/A

Q3: Do you agree with the proposed New Zealand changes to ISSA (NZ) 5000:

a) To clarify the scope

b) To address the existence of relationships that the assurance practitioner may have?

Are there any other matters that you recommend that the XRB add to ISSA (NZ) 5000?

N/A

B: International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))

Q4: Do you agree with the proposal to adopt the IESSA (NZ) in New Zealand?

The International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) are designed to 'establish a strong ethical foundation for sustainability reporting and assurance engagements.'[11]

The benefits of incorporating IESSA (NZ) include:

- Compliance with international standards, improving comparability across countries (it especially relevant to consider that the IESSA (NZ) will be consistent with Australia, due to the number of Trans-Tasman businesses).
- Increased trust in New Zealand's sustainability reporting, especially from international parties.
- Improved usability and trust from international stakeholders and investors.
- Standards that reflect challenges in reporting sustainability (e.g. tensions arising from short term/long term approaches, high level/low level confidence in the data or the needs of primary/secondary users).
- Mitigating unethical and 'greenwashing' conduct (including helping with issues of non-compliance with laws and regulations (NOCLAR), issues with independence and unethical behaviour, and ethical concerns from working with external experts). [12]

However, the IESSA (NZ) is designed like traditional financial reporting frameworks. It is important to note that sustainability information is fundamentally different to financial information in a number of ways. There are elements of sustainability that are therefore missed under IESSA (NZ), such as biodiversity or community impacts, which are less easily quantified.

The Institute recommends:

1. IESSA (NZ) is adopted, however, we note that some complexities of sustainability reporting should be considered.

Q5: Is your firm intending to transition to the IESSA (NZ) for sustainability assurance engagements? If yes, when?

N/A

Q6: Do you agree with the proposed New Zealand changes to IESSA (NZ):

a) To clarify the scope

b) To replicate amendments in PES 1?

Are there any other matters that you recommend the XRB add to IESSA (NZ)?

N/A

C: *Revisions to the Code Addressing Using the Work an External Expert* applicable to all assurance engagements

Q7: Do you agree with the proposal to adopt the Revisions to the Code Addressing Using the Work of an External Expert in New Zealand?

Assurance providers in New Zealand's sustainability reporting will require non-accounting experts (e.g. climate scientists), as this kind of reporting requires different skills and education to traditional accounting. Allowing external experts is therefore important. However, objectivity standards must remain high so that sustainability information is trustworthy.

The Institute notes the importance of maintaining trust in sustainability reporting, as noted in *Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts:*

> 'We begin by commending the IESBA for their work on revising the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) as it relates to the use of external experts by professional accountants (PAs) and sustainability assurance practitioners (SAPs). **Given the increasing breadth of PAs' and SAPs' work, there is an increasing need to draw on the work of experts (e.g. Boritz et al., 2020) and an increasing possibility that inappropriate reliance on that work by the PA or SAP may threaten the PA's or SAP's compliance with the fundamental principles of the Code. Appropriate evaluation of the work of the external expert helps to minimise that threat.** Overall, we believe that the proposals, when considered collectively, will enhance the PA's and SAP's evaluation of an external expert's work, but that there remain opportunities for the IESBA to make further improvements to the Code in this area.' [13]

The Institute recommends:

1. work of external experts should be accepted, but it requires detailed regulations, definitions and guidance (detailed in the response to Q8 below). If information provided by external experts is not held to high standards, sustainability reporting may be seen as inconsistent and thus lose public trust and usability. Maintaining credibility of the use of external experts is critical to ensure the information produced is accurate and will have an impact.

Q8: Are there any New Zealand changes that you recommend the XRB add to the standard Addressing Using the Work of an External Expert?

As discussed in the response to Q7 above, the Institute acknowledges that the use of external experts will require clear definitions and guidance, including specific disclosure on their credentials and experience, as well as any (real or perceived) conflicts of interest.

The Institute refers to *Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts:*

> '**There is a need for assurance over sustainability information, and for that assurance to be provided by professional people who have the appropriate guidance on ethical issues.** There is an increasing need to draw on the work of experts and an increasing possibility that inappropriate reliance on that work by professional

accountants and sustainability assurance practitioners may threaten compliance with the fundamental principles of the code of ethics.'[14] [bold added]

This definition for assurance practitioners should also include requirements to disclose non-compliance with laws and regulations. This point is discussed in more detail in *Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts:*

> '**We recommend that where a sustainability assurance practitioner, or a senior professional accountant in business, is aware of non-compliance with laws and regulations (NOCLAR), there should be a requirement to disclose it to multiple sustainability practitioners where these exist.** We have made comments about the disclosure of fees for sustainability services (question 17), because we consider that the mechanism for disclosure is not currently made clear in the Exposure Draft.'[15] [bold added]

For sustainability reporting to be useful, it is critical that sustainability reporting aims to complement financial reporting. This means that although the processes and goals are aligned, the topics and in some cases the level of confidence in the data or the completeness of the data may not be of a comparable standard. However, this is to be expected given the pace and types of changes that businesses are currently facing.

The Institute recommends:

1. clear definitions should be implemented to define what is required for someone to be considered an 'expert' in their area of reporting and assurance. Good sustainability reporting should reinforce a company's social licence to operate and deliver better long term outcomes for the company and the community it serves (e.g. suppliers, staff etc).

D: New Zealand Standard on Assurance Engagements 1 (NZ SAE 1)

Q9: Do you support adding a third option to NZ SAE 1 to enable assurance practitioners to apply ISSA (NZ) 5000 for mandatory GHG assurance engagements?

The consultation paper (p.9) emphasizes the broad scope of ISSA 5000:

> '**The scope of ISSA 5000 is intentionally broad and covers all sustainability information including GHG.** However, in New Zealand, NZ SAE 1 is the applicable standard for mandatory assurance over GHG emission disclosures in the climate statements of CREs. For clarity, we propose including the following New Zealand-specific paragraph in ISSA (NZ) 5000 to refer to NZ SAE 1 for the purposes of mandatory assurance:
>
> > *NZ 8A The practitioner shall apply New Zealand Standard on Assurance Engagements 1 when conducting an assurance engagement for the disclosures within the climate statements relating to Greenhouse Gas emissions required by the Financial Markets Conduct Act 2013 to be the subject of an assurance engagement.*'

It is noted that the addition of ISSA (NZ) 5000 is the third option to this reporting framework and will be *optional* rather than *mandatory*. As noted above, allowing for a number of different options causes confusion for users and preparers of sustainability information. A single mandatory option would help improve clarity in this developing area.

The consultation paper (p.12) states:

> '**The XRB does not propose to mandate the use of ISSA (NZ) 5000 for GHG emissions assurance.** Rather, we propose to make ISSA (NZ) 5000 **available for use as an option** alongside ISAE (NZ) 3410 or ISO 14064:3-20199 to assure GHG emissions disclosures within our temporary standard.' [bold added]

The Institute notes that some benefits of incorporating ISSA (NZ) 5000 include:

- Ensures New Zealand is compliant with international standards in assurance, maintaining international trust in New Zealand's reporting.
- Allows international stakeholders to compare and trust New Zealand sustainability reporting.
- Addresses important reporting areas such as forward-looking estimates, value chain emissions (scope 3) and non-financial and narrative disclosures. These elements are critical for greenhouse gas reporting assurance.
- Strengthens transparency of greenhouse gas emissions reporting, supporting stakeholder confidence.
- Implements a stronger assurance regime, which will help prevent 'greenwashing' and 'cherry-picking' sustainability reporting.

The Institute recommends:

1. the addition of ISSA (NZ) 5000, however our view is that it should be mandated as a primary standard rather than an optional standard.
2. a clear timeline for implementation should be put in place to provide certainty for preparers, users and assurance providers.

Q10: Do you support the proposed conditional requirement for one-to-many reports being added to NZ SAE 1?

A major opportunity exists for New Zealand to use the disclosure and assurance of climate statements to provide national and international confidence in the country's reduction of domestically generated emissions.

New Zealand's first Biennial Transparency Report (BTR1) was published on 18 December 2024. It outlines progress made towards New Zealand's first NDC (NDC1), and how New Zealand will meet its emissions reduction and climate finance targets.[16] Projections in BTR1 note that the abatement gap to achieving NDC1 is 89.2 Mt CO_2e (not including the impact of policies and updated data included in the Government's second emissions reduction plan).[17]

The Institute notes that New Zealand's second NDC (NDC2) was submitted in January 2025 and has an emissions reduction level of 51–55% below gross 2005 levels by 2035 (compared to 50% below gross 2005 levels by 2030 in NDC1).[18]

The availability of evidence regarding work that domestic entities have undertaken to reduce domestic emissions may create an opportunity: New Zealand may find it needs to purchase fewer offshore carbon credits to meet emissions reductions declared under the Paris Agreement. A lack of this evidence will only hinder the country's chances to reduce these costs. It will also increase uncertainty, making it more difficult to produce effective, applicable and cost-efficient long-term plans and strategies around climate change.

Scope 3 emissions make up the largest proportion of total emissions for many companies. The Carbon Disclosure Project (CDP) reported in 2024 that the scope 3 emissions of the 19,000 companies that disclosed through them were on average 26 times higher than scope 1 and 2 emissions.[19] Therefore, delaying disclosure and assurance of these emissions is particularly problematic.

The Institute recently published *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.*[20] This paper examines some aspects of recently published climate statements. The relevance of this paper is that it shows that scope 3 information can be prepared and is significant in terms of scale, and is therefore useful. This paper also found Companies have already demonstrated the ability to report scope 3 emissions.

See the figures and tables in Appendix 1 below:

- Table A1.1: Six early adopters that chose to fully report against NZ CS in FY23 annual reports
- Table A1.2: Six early adopters' GHG emissions (disclosed in FY23 annual reports)
- Figure A1.3: Six early adopters' GHG emissions (disclosed in FY23 annual reports).

It is also relevant to refer to the consultation paper (p.13):

> '**Value chain considerations are especially relevant to scope 3 GHG emission disclosures which are subject to mandatory assurance in New Zealand.** During our recent consultation on amendments to the climate standards, the use of service

organisation and controls reports was highlighted by practitioners for third party data providers. ISSA 5000 includes requirements and considerations for one-to-many reports (refer Appendix B for details) if the practitioner plans to use an assurance report of another practitioner that has been designed for use by user entities. NZ SAE 1 includes high-level principles for the use of the work of others (refer para. 26). Two of these requirements state that, if the assurance practitioner intends to use the work of others, they shall:

- agree the nature, scope and objectives of their work
- evaluate the adequacy of the work performed for their purposes.

We are interested to understand how practitioners are dealing with scope 3 GHG assurance and whether further changes are needed within our temporary standard. We are exploring adding a requirement for one-to-many reports within NZ SAE 1 to drive consistency across practitioners, noting that any such requirement would not be applicable until periods commencing on or after 15 December 2026.' [bold added]

A key purpose of sustainability reporting is to help investors, and the wider public, make educated decisions on companies and their impacts on the climate. It is therefore essential that sustainability reporting is trusted by the public, and that this information is accessible.

In the short term, flexibility should be offered around the accuracy and reliability of scope 3 emissions, rather than the timeframe, as the latter provides no incentive for CREs (and assurers) to start developing the skills, processes and structures required to disclose. Additionally, for the government to design effective and deliverable climate strategies and assess the need for offshore carbon credits, an estimation is far more helpful than no information at all. Therefore, the Institute also recommends that Parliament passes legislation that provides safe harbour provisions for directors in relation to scope 3 emissions information.

The Institute recommends:

1. making 'one-to-many' assurance reports publicly available will benefit New Zealand by building trust in sustainability information. If this approach is to progress, we consider there needs to be a high level of transparency, with experts stating the purpose, who paid for the report and over what time frames the report has been prepared.
2. rather than delay the reporting and assurance of scope 3 GHG emissions, the XRB accept that preparers may only be able to report scope 3 emissions with a low level of confidence for say the next three years. This recommendation is explained in more detail in *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [21]

E: International Standard on Assurance Engagements (New Zealand) 3410 (ISAE (NZ) 3410)

Q11: Do you agree that the XRB should defer any decision to withdraw ISAE (NZ) 3410 to a later date?

The consultation paper (pp.13–14) notes that, although ISSA 5000 will be the international standard, the XRB intends to retain ISAE (NZ) 3410:

> '**Internationally ISSA 5000 will replace ISAE 3410 for periods beginning on or after 15 December 2026. Thereafter, ISAE 3410 will not be maintained internationally, and assurance practitioners will not be able to assert compliance with international standards if referencing ISAE 3410.**
>
> The **XRB currently intends to retain ISAE (NZ) 3410 as an XRB standard. We also intend to retain ISAE (NZ) 3410 as an option** within NZ SAE 1. ISAE (NZ) 3410 is specific to GHG emissions, which is the scope of the mandatory assurance required for climate statements… We will continue to monitor GHG assurance reports in the New Zealand market and will engage on the value of retaining ISAE (NZ) 3410 once more information is available.'

The ISAE 3410 was designed to deal with 'assurance engagements to report on an entity's Greenhouse Gas statement.'[22] However, it is an old standard that is arguably no longer fit for purpose.

Key concerns with ISAE 3410 include:

- It was designed over a decade ago (compiled in June 2010 and issued in December 2012).[23]
- It has a narrow focus on assurance of greenhouse gas emissions (and does not consider other sustainability factors such as forward-looking disclosures).
- It does not consider the importance of reporting on scope 3 emissions. As noted above in the response to Q10, these emissions are significant:
    - Scope 3 emissions make up the largest proportion of total emissions for many companies.
    - CDP reported in 2024 that the scope 3 emissions of the 19,000 companies that disclosed through them were on average 26 times higher than scope 1 and 2 emissions.[24]
    - Delaying disclosure and assurance of these emissions is particularly problematic.
- It is potentially inconsistent with international standards (i.e. ISSA 5000). This reduces trust and international comparability.
- Its reliance on outdated frameworks allows for the risks of 'greenwashing' and may also dilute accountability and public trust in sustainability reporting.

The climate is changing fast and we need to implement changes now. New Zealand's climate reporting regime should be designed to improve certainty for preparers, help users understand sustainability information, and drive real emissions reduction.

Deferring the withdrawal decision is delaying the opportunity to improve New Zealand's sustainability reporting and to uphold international standards. See the response to Q12 below for

a more detailed list of reasons why a delayed sustainability reporting timeline is not recommended.

The Institute recommends:

1. the decision to withdraw ISAE (NZ) 3410 is not delayed to a later date. Instead, the Institute recommends the XRB should define a clear transition period (including targeted guidance and training) to phase out ISAE (NZ) 3410 and replace it with ISSA 5000. Further delaying this transition undermines supporting New Zealand's long-term climate goals.

F: Applicable date of all standards

Q12: Do you agree with the proposed application date for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026? The proposal is to align with the effective dates of the international standards.

The Consultation paper (p.14) notes that:

> 'The XRB proposes to **align with the application dates of the international standards**, i.e. applicable for assurance engagements on sustainability information reported for periods beginning on or after **15 December 2026.** The XRB proposes to allow, but not require, early adoption.' [bold added]

Though early adoption is allowed, the proposed application date of 15 December 2026 does allow for a significant lead time. Companies should already be collecting and verifying climate information, as climate-related disclosures are already mandatory under New Zealand's Climate-related disclosures (CRD) regime. Delaying disclosure requirements any further than December 2026 will further slow progress, not enable it.

The results from the Institute's *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies* show that 95% (80 out of 84) of FY24 climate statements applied the adoption provisions provided to CREs under NZ CS 2 (with a total of 417 adoption provisions applied throughout the 80 FY24 statements) (see Appendix 1, Figure A1.2 from *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies*). Evidently, the vast majority of companies apply adoption provisions when given the opportunity and are far less inclined to disclose information if they are not required to. Providing further relief to companies will only further delay crucial action.

We have an opportunity as a small developed country to be a world-leader in climate reporting. 'New Zealand should continue to work hard to lead in this space. It is difficult for small countries to be seen and heard, but our actions to create mandatory climate reporting were acknowledged globally as world leading. Delaying assurance at this stage of the process is a step back from our current leadership role.'[25]

What we don't measure, we cannot manage. Delaying a robust, clear and user-friendly assurance standard and reporting framework system will mean company climate information cannot be verified, compared and used. Implementing robust assurance *now* will mean early climate disclosures can be verified and managed, improving the usability of information for stakeholders.

There are a number of other reasons a delayed implementation timeline is not recommended:

1. The effects of climate change are accelerating (see Section 2.0 discussion above).
2. The fact that information may be difficult or costly to prepare is not a valid reason to exclude it from reporting. Many disclosures (e.g. fair value estimates, contingent liabilities, notes to the accounts) are complex and resource-intensive, yet are required information because they lead to better decision-making. See, for example, our *Discussion Paper 2024/01 – Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?*[26]

3. The purpose of reporting focuses on the needs of 'primary users' to assess information on risk, value and strategy – not report preparers. The *New Zealand Conceptual Framework* states: 'Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the **primary users** to whom general purpose financial reports are directed'[27] [bold added]. Hence, if the information is useful to **primary users,** even if hard to produce, it should be in the report.
4. Complexity and cost often decline over time as companies develop systems, share best practices, and adopt technology. Avoiding disclosure delays this progress and leaves markets in the dark.
5. Delaying disclosures in pursuit of perfect accuracy risks missing critical windows for mitigation and adaptation. Even imperfect data can guide capital allocation, risk management and strategic decision-making.
6. Imperfect information today is going to be more useful for investors and other stakeholders than accurate information in four to five years' time.
7. Many companies are already producing financial information that is not comparable with other companies (e.g. non-GAAP measures), suggesting that comparability is not a prerequisite for usefulness.
8. Results from *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies* show that 95% of climate statements were categorised as partial disclosures by the Institute.[28] However, 5% full disclosure is good given the level of work involved for preparers, and noting it will get easier. Further, it was interesting to see that 3% of non-CRE NZSX-listed entities were considering reporting, not because they had to, but because they could see it delivered benefits. See Figure A1.1: Types of NZ CS disclosures made in FY24 annual reports by CREs compared with non-CREs.

The Institute recommends:

1. the December 2026 implementation date is maintained. As discussed above, climate change is urgent and any further delays will undermine climate action accountability.

Other

Q13: Do you have any further comments?

Refer to 4.0 below for further comments and recommendations.

4.0 Further Institute recommendations

1. Consider integration in the broader external reporting framework

Any reforms should support the wider NZ external reporting regime (financial reporting, non-financial, risk, governance). The importance of ensuring New Zealand's reporting framework is designed for alignment is discussed in detail in the Institute's *Report 17: Building a Reporting Framework Fit for Purpose.*[29]

You can view a relevant excerpt from the recommendations in *Report 17* in Appendix 2: Extract from Report 17.

2. Reflect user needs and decision usefulness

Reporting and assurance standards should be considered in terms of information infrastructure. It is important to consider how reports serve a variety of users of this information (investors, regulators, the public). Users should be able to trust and rely on climate reporting as they can rely on financial and other assured information.

As noted above, the purpose of reporting focuses on the needs of 'primary users' to assess information on risk, value and strategy – not report preparers. The *New Zealand Conceptual Framework* states: 'Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the **primary users** to whom general purpose financial reports are directed'[30] [bold added].

Hence, if the information is useful to **primary users,** even if hard to produce, it should be in the report. It is also important to consider other users, beyond traditional shareholders, who will use sustainability information (e.g. local communities, iwi/Māori, etc.). Assurance needs to consider how these wider users will rely on climate reporting information.

3. Monitor, evaluate, and require regular feedback loops to ensure reporting remains fit for purpose

It is recommended that the FMA commit to periodic reviews of how the new assurance regime is working. This should include monitoring of uptake, quality, costs, usability, unintended consequences, and other factors that impact the reporting. This area of reporting is changing fast and it is critical to develop a feedback mechanism to adjust reporting when required.

There is clearly a role for the XRB as standard setter to be working hard to ensure their standards are cost-effective and useful, hence both FMA and XRB have an interest in ensuring business is not unnecessarily overladen with costs and that users get the information they need to make decisions. This requires a balancing act and frequent reviews of new standards to ensure they are optimised for all concerned.

4. Where possible, minimize voluntary assurance as it is unregulated and unclear

The consultation continues to enable voluntary assurance of sustainability information, and there are various frameworks that can be used.

This means companies are likely to only report information that a) is easy to report and verify and b) makes their sustainability and climate impacts look 'good'. The more important, yet difficult to report or less flattering information may be missed.

For sustainability reporting to be useful, it should reflect the full picture of a company's impacts. Consistency of standards will help both preparers and users of reports by helping improve public trust.

5. Implement change now to reflect the changing climate

Delaying disclosures in pursuit of perfect accuracy risks missing critical windows for mitigation and adaptation. Even imperfect data can guide capital allocation, risk management and strategic decision-making.

Imperfect information today is going to be more useful for investors and other stakeholders than accurate information in four to five years' time.

6. Rather than delaying disclosure requirements, allow a low level of confidence for a crossover period

This recommendation is from *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [31]

The disclosure of anticipated financial impacts of climate risks and opportunities offers greater transparency, allowing investors and stakeholders to assess the potential impacts of climate change on an organisation's future financial position.[32] This supports informed decision-making and confirms the credibility of an entity's strategy and transition plan. Climate change affects all economic sectors; however, the type and extent of exposure and impact of climate-related risks differ between sectors, industries, geographies and organisations.[33] Therefore, this information is key to upholding the core purpose of the NZ CS to 'support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate resilient future'.[34]

The Companies Act 1993 recognises the importance of reporting risk. The Act's purpose is in part 'to reaffirm the value of the company as a means of achieving economic and social benefits through the aggregation of capital for productive purposes, the spreading of economic risk, and the taking of business risks'.[35] Given the need for urgent climate action, entities should not be excused from disclosing crucial information to shareholders and stakeholders.

Delaying disclosure requirements will slow progress, not enable it.

7. Implement regular reviews of the framework

It is critical to review types of sustainability reporting regularly. Consistent reviews will help to build intelligence as to what works and what does not. These reviews should analyze impacts from the perspective of both the user and the preparers of reports.

Regular reviews will also be effective to prevent 'greenwashing' or any other sustainability information being reported that does not apply to the standards (e.g. like we are currently seeing with companies adding in non-GAAP information into annual reports).

8. Require assurance practitioners to be rotated every five years

The addition of a requirement for assurance practitioners to be rotated regularly (for instance every five years) will help improve transparency and accountability in the sector.

It is recommended this could take similar form to the current Audit Partner Rotation Provisions which exist in New Zealand. The FMA's *Audit Quality Director Guide* states 'there is mandatory rotation of audit partners for FMC audits (engagement lead audit partners have to rotate every seven years, or five years for most of the NZX-listed markets).'[36] It also notes 'Directors should consider whether their relationship with their audit firm and/or key audit staff has become too close to ensure they provide sufficient challenge. This is not in the best interests of directors or investors.' [37]

Regular rotation ensures quality and accuracy are checked and an independent relationship is maintained. A similar rotation for sustainability assurance practitioners would help to maintain independence, ensuring sustainability reporting information is both trustworthy and accurate.

5.0 Conclusion

New Zealand has the ability to be a world leader in quality sustainability assurance. Designing a clear framework for assurance is an essential part of ensuring our sustainability reporting is reliable and trustworthy for users. We need publicly available, meaningful and trustworthy assurance reports to help all stakeholders track alignment with climate targets. It is in the public interest to get this right.

From a long-term sustainability standpoint, the XRB's consultation offers an opportunity to align New Zealand's assurance and ethics frameworks with evolving global standards. However, as mentioned above, climate change is happening now and the delayed timeframes are concerning.

The Institute strongly recommends the XRB pursues a more ambitious and timely approach to improving New Zealand's sustainability framework. This will require clear timeframes, a consistent framework and support for entities as they transition to higher standards of reporting.

Key Institute recommendations

A: International Standard on Sustainability Assurance (New Zealand) 5000, General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)

The Institute recommends

1. that CREs obligated to provide assurance for their climate statements should be mandatorily required to adopt ISSA (NZ) 5000. If CRE's wish to seek additional guidance, we suggest they read ISO 14064-3 and ISAE (NZ) 3410.

2. companies that report on greenhouse gases in their annual report should be mandatorily required to apply ISSA (NZ) 5000.

3. a clear timeline, support and tailored guidance should be provided for phasing out the older standards. This will improve accountability, usability and public trust in sustainability reporting.

B: International Ethics Standards for Sustainability Assurance (including International Independence Standards) (New Zealand) (IESSA (NZ))

The Institute recommends

1. IESSA (NZ) is adopted, however, we note that some complexities of sustainability reporting should be considered.

C: *Revisions to the Code Addressing Using the Work an External Expert* applicable to all assurance engagements

The Institute recommends

1. work of external experts should be accepted, but it requires detailed regulations, definitions and guidance (detailed in the response to Q8 below). If information provided by external experts is not held to high standards, sustainability reporting may be seen as inconsistent and thus lose public trust and usability.

2. clear definitions should be implemented to define what is required for someone to be considered an 'expert' in their area of reporting and assurance.

D: New Zealand Standard on Assurance Engagements 1 (NZ SAE 1)

The Institute recommends

1. the addition of ISSA (NZ) 5000, however our view is that it should be mandated as a primary standard rather than an optional standard.

2. a clear timeline for implementation should be put in place to provide certainty for preparers, users and assurance providers.

3. making 'one-to-many' assurance reports publicly available will benefit New Zealand by building trust in sustainability information. If this approach is to progress, we consider there needs to be a high-level of transparency, with experts stating the purpose, who paid for the report and over what time frames the report has been prepared.

4. rather than delay the reporting and assurance of scope 3 GHG emissions, the XRB accept that preparers may only be able to report scope 3 emissions with a low level of confidence for say the next three years. This recommendation is explained in more detail in *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies.* [38]

E: International Standard on Assurance Engagements (New Zealand) 3410 (ISAE (NZ) 3410)

The Institute recommends

1. the decision to delay withdrawing ISAE (NZ) 3410 should not be delayed to a later date. Instead, the Institute recommends the XRB should define a clear transition period (including targeted guidance and training) to phase out ISAE (NZ) 3410 and replace it with ISSA 5000. Further delaying this transition undermines supporting New Zealand's long-term climate goals.

F: Applicable date of all standards

The Institute recommends

1. December 2026 is maintained as an implementation date. As discussed above, climate change is urgent and any further delays will undermine climate action accountability.

Further Institute recommendations

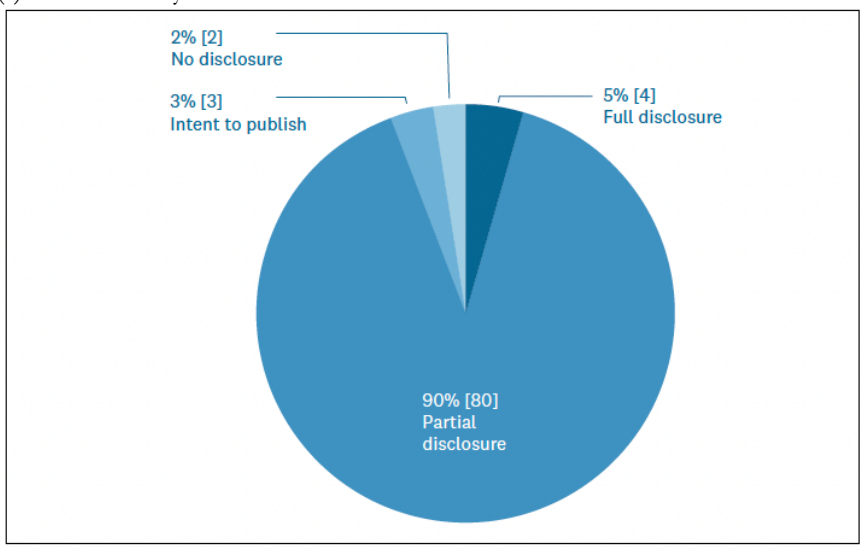
1. Consider integration in the broader external reporting framework
2. Reflect user needs and decision usefulness
3. Monitor, evaluate, and require regular feedback loops to ensure reporting remains fit for purpose
4. Where possible, minimize voluntary assurance as it is unregulated and unclear
5. Implement change now to reflect the changing climate
6. Rather than delaying disclosure requirements, allow a low level of confidence for a crossover period
7. Implement regular reviews of the framework
8. Require assurance practitioners to be rotated every five years.

Appendix 1: Selected Tables and Figures from Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies

Companies have worked hard to deliver users better quality information, both in terms of accuracy and breadth. The results below imply not only a successful start, but that others that are not required to produce this information, may require some form of mandatory reporting in the future.

Figure A1.1: Types of NZ CS disclosures made in FY24 annual reports by CREs compared with non-CREs
Source: McGuinness Institute, *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies,* September 2025.[39]

(a) CREs only



(b) Non-CREs

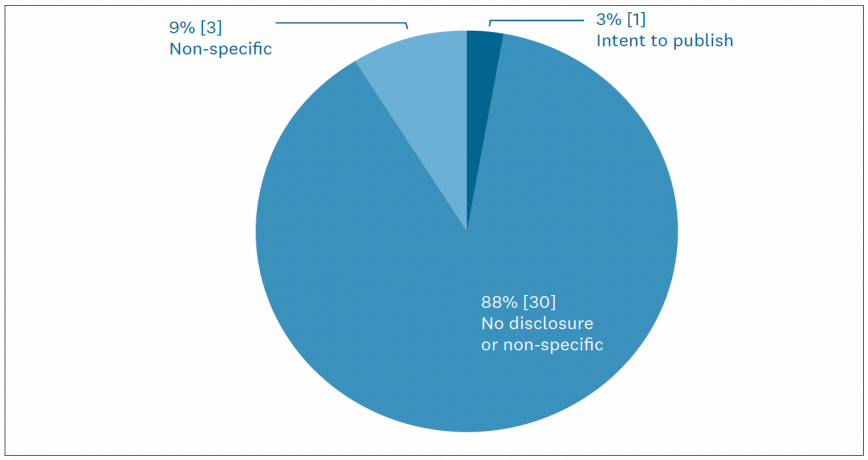


Figure A1.2: Adoption provisions applied in the FY23 and FY24 climate statements of NZSX-listed companies
Source: McGuinness Institute, *Working Paper 2025/06 – Analysing Climate Statements Contained in 2023 and 2024 Annual Reports of NZSX-listed Companies,* September 2025.[40]

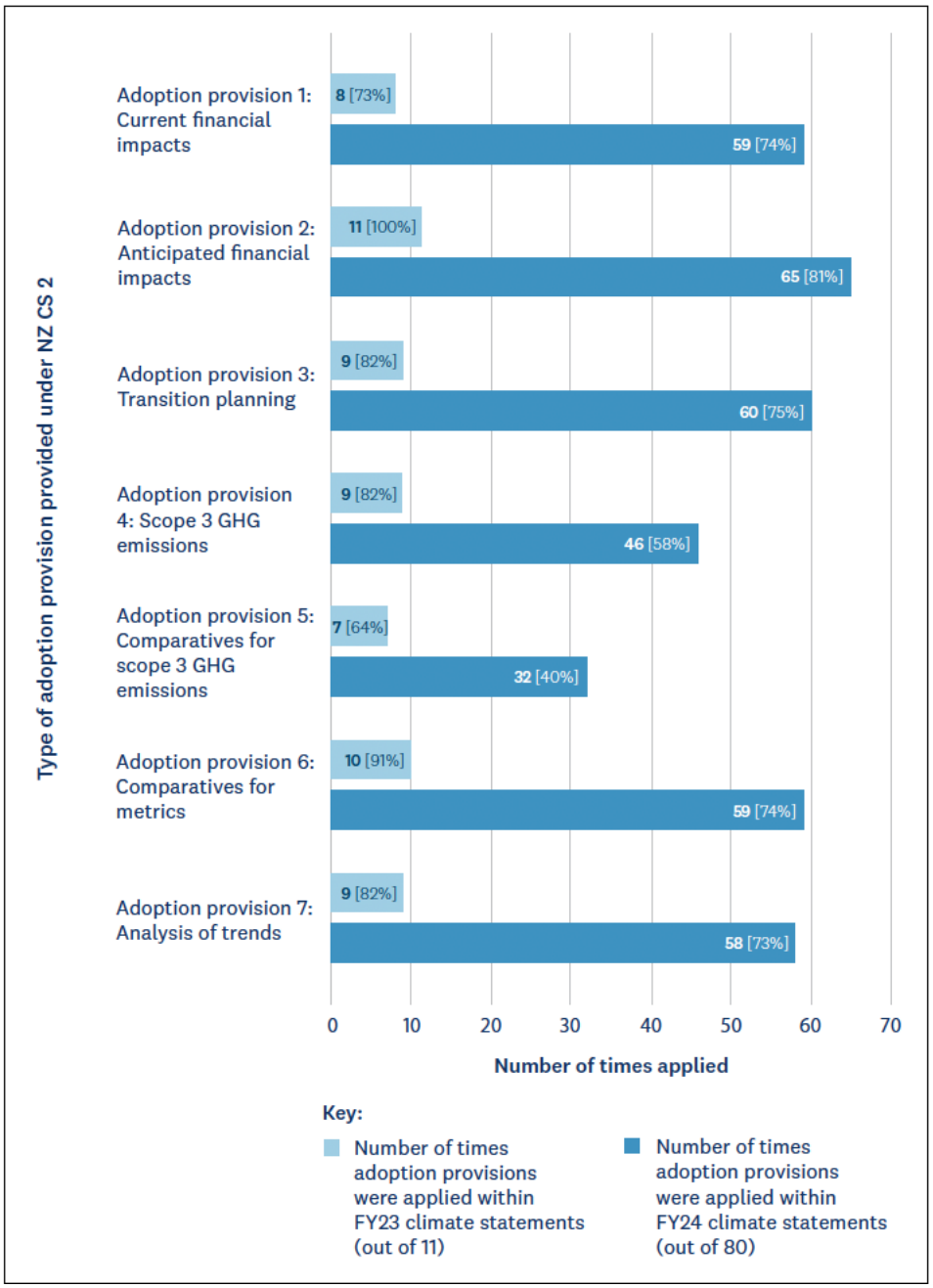


Table A1.1: Six early adopters that chose to fully report against NZ CS in FY23 annual reports
Source: McGuinness Institute, *Working Paper 2024/07 – Collating Climate Statements Contained in 2023 Annual Reports of NZSX-listed Companies,* September 2024.[41]

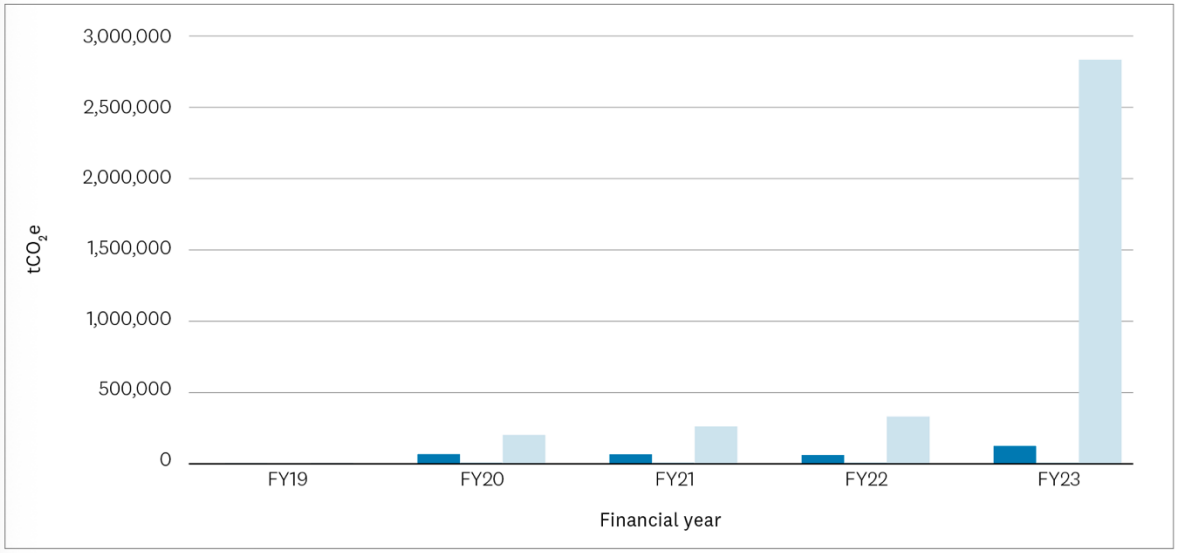
NZSX code	Legal name	Number of pages	See page
AIA	Auckland International Airport	13	27
IPL	Investore Property	10	42
MEL	Meridian Energy	32	62
SAN	Sanford	13	92
SEK	Seeka	15	105
THL	Tourism Holdings	22	121

Table A1.2: Six early adopters' GHG emissions (disclosed in FY23 annual reports)
Source: McGuinness Institute, *Working Paper 2024/07 – Collating Climate Statements Contained in 2023 Annual Reports of NZSX-listed Companies,* September 2024.[42]

		Auckland International Airport	Investore Property	Meridian Energy	Sanford	Seeka	THL Holdings	Total
FY19	Scope 1	2472	–	–	–	4051	–	6523
	Scope 2	3423	–	–	–	3973	–	7396
	Scope 3	6228	–	–	–	4069	–	10,297
	Total tCO_2e	12,123	–	–	–	12,093	–	24,216
FY20	Scope 1	2397	79	–	65,069	3803	–	71,348
	Scope 2	3224	11	–	2423	3696	–	9354
	Scope 3	5185	–	–	194,774	4452	–	204,411
	Total tCO_2e	10,806	90	–	262,266	11,951	–	285,113
FY21	Scope 1	1674	–	1020	62,130	3900	–	68,724
	Scope 2	2615	–	14	2349	4487	–	9465
	Scope 3	16,497	–	29,841	212,447	3987	–	262,772
	Total tCO_2e	20,786	–	30,875	276,926	12,374	–	340,961
FY22	Scope 1	2004	–	643	57,076	4465	–	64,188
	Scope 2	3007	–	2	1466	5708	–	10,183
	Scope 3	77,523	–	40,467	212,065	4618	–	334,673
	Total tCO_2e	82,534	–	41,112	270,607	14,791	–	409,044
FY23	Scope 1	2060	32	1191	60,103	5685	59,393	128,464
	Scope 2	2231	19	2	1493	2892	1953	8590
	Scope 3	2,579,061	10,861	46,565	184,386	4487	4126	2,829,486
	Total tCO_2e	2,583,352	10,912	47,758	245,982	13,064	65,472	2,966,540

Figure A1.3: Six early adopters' GHG emissions (disclosed in FY23 annual reports)

Source: McGuinness Institute, *Working Paper 2024/07 – Collating Climate Statements Contained in 2023 Annual Reports of NZSX-listed Companies*, September 2024.[43]



	FY19	FY20	FY21	FY22	FY23
Scope 1	6523	71,348	68,724	64,188	128,464
Scope 2	7396	9354	9465	10,183	8590
Scope 3	10,297	204,411	262,772	334,673	2,829,486

Appendix 2: Extract from Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose (June 2020)

Report 17 was an ambitious attempt to think more deeply about the purpose of New Zealand's reporting framework and the role of climate reporting in the future. In order to scope this report, it was critically important to set high-level principles (see the first three below).

The climate-related reporting framework for New Zealand should be:

1. Simple, coherent and easy for preparers to apply and for investors to understand and trust;
2. Cost-effective – provides value in terms of (i) the costs of preparation, assurance, compliance and regulation and (ii) the urgency in addressing the challenges facing New Zealand and the planet; and
3. Durable and 'future-proofed' – stands the test of time by balancing certainty with the necessary flexibility to deliver on its purpose for preparers and users of climate-related financial disclosures.

Given the above, the Institute proposes that New Zealand should:

1. Require mandatory reporting for selected entities where the benefits of disclosure outweigh the costs of preparing and reporting;
2. Set out a clear purpose for the framework which outlines what disclosures an entity must comply with and why;
3. Build on existing legislative and external reporting frameworks, design features and terminology;
4. Utilise New Zealand's international standing in standard-setting. New Zealand, through the XRB and Office of the Auditor-General (AG), has world-leading and proven reporting and assurance standard capabilities and expertise;
5. Utilise the expertise of the XRB, with a view to the XRB developing domestic standards to support entities to meet legislative requirements;
6. Align the reporting requirements of both for-profit and public benefit entities. This will not only benefit shareholders and other users by providing comparable information across both sectors, but will also benefit preparers and assurance providers as they move between the public and private sectors; and
7. Allow entities that are not subject to mandatory reporting to report voluntarily and to file their report in the same location as mandatory reporting entities. There will be reputational advantages of reporting in terms of attracting/retaining staff and growing supplier and customer loyalty. These advantages should be made available to all other entities (e.g. SMEs and other large private entities).

In this section the Institute explores three linked mechanisms in which climate-related financial reporting, through requiring selected entities to prepare a 'Statement of Climate Information', could be embedded into the New Zealand reporting framework. A 'Statement of Climate Information' would improve the quality and consistency of reporting on climate-related financial information to shareholders and other stakeholders of selected entities. This would be achieved by a mandatory reporting framework that centres on ensuring adequate material information is contained in annual reports (or as standalone document if the entity does not prepare an annual report). Material climate-related financial information would be along the lines of the TCPD voluntary reporting framework.

Major recommendation: Embed climate-related financial reporting into the New Zealand reporting framework. From the Institute's perspective, this should be managed by the XRB as part of their normal business practice of issuing standards for selected entities to report against. The Institute envisages that this would result in a 'Statement of Climate Information' prepared and signed by two directors, audited by an external party and published in the entity's annual report (this is referred to as major recommendation 6 in Section 8).

Source: McGuinness Institute, *Report 17: ReportingNZ: Building a Reporting Framework Fit for Purpose*, June 2020.[44]

Appendix 3: Extract from *Financial Times*

As we go to print, there continues to be debate over ESG, driven particularly by the US. This article by the *Financial Times* is insightful, but also reinforces the continued need for ESG information.

Recommended

Markets Insight Andreas Utermann

The push for ESG risks conflict with fiduciary responsibilities

Probably the most important development on climate reporting in the past few years is the publication of reporting standards by the International Sustainability Standards Board. In 2023, the ISSB published the IFRS S1 framework for reporting on material sustainability risks, and IFRS S2 on climate-related disclosures.

The Securities and Exchange Commission voted this year to end its defence of a rule that would have required US companies to report on climate risks, and new chair Paul Atkins has attacked the new ISSB standards as driven by "ideologues". But so far 37 jurisdictions have adopted or plan to adopt them, including a wide range of countries such as Australia, Bangladesh, Brazil, Chile, Hong Kong, Kenya, Malaysia, Mexico, Nigeria, Pakistan and Turkey. The standards also have been supported by key international bodies including the G7, the International Organization of Securities Commissions and the Financial Stability board.

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