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Dear Sir / Madam

Draft climate reporting roadmap

Introduction

CBA NZ supports the adoption of an internationally aligned climate reporting framework based on IFRS S2. We consider that the effectiveness of the New Zealand framework will depend on close alignment with AASB S2 and, as far as practicable, IFRS S2.

Close alignment between NZ IFRS S2 and AASB S2 will support comparability between the New Zealand and Australian regimes and reduce unnecessary duplication for entities that report across both jurisdictions. We therefore recommend that XRB design NZ IFRS S2 in a way that supports the continued effective operation of the FMA's exemption framework for qualifying branches of overseas climate reporting entities.

Where an overseas entity is subject to a comparable mandatory reporting regime and its group report covers its New Zealand operations, we consider that one high-quality group report should remain capable of meeting the information needs of New Zealand primary users without requiring duplicate branch-level reporting.

Proposed consultation responses

1. Do you support the strategic direction for climate reporting set out in the draft climate reporting roadmap?

- CBA NZ supports the proposed move towards an internationally aligned climate reporting standard based on IFRS S2. International alignment should improve comparability and reduce the need for multinational groups to operate different reporting systems in each jurisdiction. Aligning NZ IFRS S2 with AASB S2 would simplify reporting for New Zealand entities with Australian parents or related entities. It would also support the principles in the *Memorandum of Understanding between the Government of New Zealand and the Government of Australia on Coordination of Business Law*.

- CBA NZ is a branch of an Australian bank and is included in CBA Group's climate reporting. The FMA has separately provided an exemption framework under which qualifying overseas entities subject to a comparable mandatory regime may obtain relief from New Zealand climate reporting requirements. For CBA NZ, the continued effective operation of that framework is important to avoiding unnecessary duplicate reporting.
- CBA NZ therefore supports the roadmap, provided its implementation:
    - aligns NZ IFRS S2 as closely as practicable with AASB S2;
    - limits the introduction of New Zealand-specific requirements to matters supported by a compelling local need;
    - provides for prompt assessment of subsequent changes to IFRS S2 or AASB S2 to avoid renewed divergence; and
    - takes account of the interaction between NZ IFRS S2 and the FMA's exemption framework.
- This approach is consistent with the trans-Tasman principle that entities should not have to provide the same information twice. It would also reduce compliance costs for entities with Australian reporting obligations or Australian parent entities.

2. Do you have any further information you consider relevant to our consideration of the benefits and costs of the draft roadmap? (s.4)

CBA NZ agrees that adopting a roadmap based on IFRS S2 should create benefits through improved international comparability, access to international reporting capabilities and reduced duplication for entities that form part of overseas groups.

However, the costs and benefits will differ depending on an entity's structure, group arrangements and home-jurisdiction reporting obligations.

For qualifying overseas entities, a material part of the benefit of international alignment arises from the ability to use reporting prepared under a comparable home-jurisdiction regime rather than operating a separate New Zealand reporting framework. Although exemption decisions sit with the FMA, the degree of alignment between NZ IFRS S2 and overseas standards will be an important factor in supporting the continued practical operation of that framework.

The benefits of international alignment may include:

- more comparable and understandable information for primary users;
- reduced need for separate New Zealand reporting systems and processes;
- more efficient use of group data, methodologies, controls and expertise;
- reduced duplication of governance, scenario analysis and assurance activities; and
- greater consistency between climate disclosures and group financial and risk reporting.

These benefits depend on maintaining alignment with reporting requirements in other countries (especially Australia) and continued recognition of reports prepared under a comparable overseas regime.

Conversely, material costs could arise if NZ IFRS S2 requires information, methodologies or processes that differ from AASB S2.

3. From a primary user perspective: (s.5)

(a) Would adopting IFRS S2 improve the climate information you rely on for your decision making?

IFRS S2 should improve the consistency and international comparability of climate-related information. IFRS S2 requires more detail than NZ CS in areas such as financial effects, financed emissions, governance, targets and progress against plans.

However, for New Zealand branches of overseas climate reporting entities, primary users would still find more detailed and holistic information in the climate statements produced by the overseas reporting entity. For example, CBA NZ is a branch of Commonwealth Bank of Australia (CBA Group):

- CBA NZ forms a small part of CBA Group and has a small number of primary users.
- Climate governance, strategy and risk management are primarily managed at CBA Group level.
- The CBA Group report prepared under AASB S2 provides a more complete picture than a stand-alone branch report.
- A separate New Zealand report could inadvertently emphasise immaterial branch-level information and obscure the integrated group approach.

These factors demonstrate why the interaction between NZ IFRS S2 and the FMA's exemption framework is important. We encourage XRB to work closely with the FMA so that transition to NZ IFRS S2 does not inadvertently create regulatory duplication for qualifying overseas entities where primary users are better served by comparable group-level reporting.

(b) Which disclosures matter most to you?

The disclosures we expect to be most useful to CBA NZ's primary users are:

- The key physical and transition risks and opportunities affecting CBA Group and CBA NZ.
- Current and anticipated financial impacts.
- Capital deployed to climate-related risks and opportunities.
- Our climate-related strategy and commitments, and progress against plans and targets.
- Our exposure to emissions-intensive sectors.
- Governance, responsibility and accountability for managing climate risk.
- The interaction of climate risk with credit, market, operational and reputational risk.
- Operational emissions and trends over time.

4. From a CRE perspective, should any of the IFRS S2 requirements (or incorporated climate-relevant portions of IFRS S1) be removed or changed? (s.5 and 7)

- We agree with the proposed approach to align with s.461ZH of the Financial Markets Conduct Act 2013 which requires greenhouse gas emissions disclosures to be subject to at least limited assurance.
- We also support the proposal to specify which entities are subject to the framework. In doing so, the standard should clearly accommodate the fact that some entities otherwise within the statutory population may be subject to exemptions granted by the FMA under the FMC Act.

- We otherwise consider that NZ IFRS S2 should be based on IFRS S2, with alignment to AASB S2 where appropriate to allow users to make direct comparisons between the climate reports produced by entities in New Zealand and Australia.

5. What are your views on the Australian harmonisation options for industry-based disclosures? (s.6.3.1)

We recommend that XRB work with the Australian Accounting Standards Board to ensure consistency in the approach to including industry-based metrics and guidance. Until a decision is reached, we recommend that XRB take *Option 2: Provide flexibility about industry-based metrics.* This would be consistent with the current approach under NZ CS.

6. With regard to Australian harmonisation, what are your views on how we should approach scenario analysis? (s.6.4)

We recommend aligning with AASB S2. That is, we recommend requiring entities to disclose information about their climate resilience under two possible future states: one involving an increase in the global average temperature of 1.5°C, and another involving an increase exceeding 2°C above pre-industrial levels.

We support alignment with Australian requirements, given the Australian and New Zealand economies and financial systems are closely connected, and inconsistent climate reporting requirements could impose additional costs without improving the information produced.

7. Are any changes or additions needed to NZ IFRS S2 to fit with New Zealand's reporting practice and market context? (s.7)

We agree with the proposed approach to replicate the assurance requirements specified in NZ CS which clarify the scope of assurance over greenhouse gas emissions.

We also agree with the intention to specify which entities are subject to the CRD framework, and which have been granted an exemption by the Financial Markets Authority.

However, we consider that NZ IFRS S2 should align with IFRS S2 as closely as possible, to enable direct comparison with climate statements produced in other countries, so we do not think any further changes or additions should be made.

8. Do you support the proposed implementation timeline? (s.8)

We generally support the proposed implementation timeline. However, we recommend:

- Undertaking a formal post-implementation review sufficiently early to inform any regulatory decisions required before the current FMA overseas-entity exemption expires in March 2031;
- monitoring implementation of AASB S2 in Australia and considering any consequential changes to NZ IFRS S2;

- ensuring, in coordination with the FMA, that any implications of implementation or early adoption for the FMA's overseas-entity exemption framework are resolved and communicated before the relevant requirements take effect; and
- providing appropriate first-time relief for entities that have not previously applied NZ CS.

9. Do you have any other comments?

The interaction between NZ IFRS S2 and the FMA's exemption framework for overseas climate reporting entities is particularly important to CBA NZ. Although decisions on exemptions are a matter for the FMA, XRB's decisions on the design and implementation of NZ IFRS S2 may affect the degree of comparability between the New Zealand and Australian regimes and therefore the practical operation of cross-border reporting arrangements.

We therefore recommend that XRB work closely with the FMA throughout implementation to ensure that the implications of NZ IFRS S2 for existing overseas-entity exemption arrangements are identified early and clearly communicated to affected entities. Joint guidance explaining the interaction between NZ IFRS S2, the FMA's exemption framework and overseas group reporting would provide valuable regulatory certainty.

To support continued trans-Tasman alignment, we also recommend that XRB:

- assess any future amendments to Australia's climate reporting framework promptly and determine whether material changes require consultation;
- maintain a table showing areas of alignment and difference between the Australian and New Zealand frameworks; and
- work with the FMA to identify whether any material divergence could have implications for the treatment of Australian reporting under the FMA's exemption framework.

Yours faithfully

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Commonwealth Bank of Australia