MSCI

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External Reporting Board – Te Kāwai Ārahi Pūrongo Mōwaho
Aotearoa New Zealand

Submitted via email: sustainability@xrb.govt.nz

New Zealand External Reporting Board Consultation on the Draft Climate Reporting Roadmap

MSCI welcomes the opportunity to comment on the External Reporting Board's (XRB) consultation on the Draft Climate Reporting Roadmap (the "Consultation document"). As a leading provider of sustainability and climate data and analytics to the global financial industry, MSCI has collected climate and sustainability-related disclosures from thousands of companies globally for over two decades and developed tools to assist financial institutions in analysing climate and sustainability risks, opportunities, and impacts within their investment and lending portfolios.

MSCI supports the strategic direction set out in the Draft Climate Reporting Roadmap, including the proposal to introduce NZ IFRS S2 Climate-related Disclosures (NZ IFRS S2), based on IFRS S2 Climate-related Disclosures (IFRS S2), together with the climate-relevant portions of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1).

For the purposes of this submission, we comment specifically on those matters where we think MSCI's expertise and experience to be most relevant in the Annex. We would like to highlight the following key points:

1. **We support the proposed alignment with IFRS S2 and the climate-relevant portions of IFRS S1.** Aligning the disclosure requirements with IFRS S1 and IFRS S2 can result in more consistent and comparable disclosure of sustainability-related financial information across entities. Internationally aligned climate-related disclosure requirements can also provide investors and other users with detailed and comparable information to assess exposure to climate-related risks and opportunities.

2. **We highlight the importance of comprehensive GHG emissions disclosure, including Scope 3, with GHG emissions measurement aligned with the GHG Protocol.** Scope 3 emissions can constitute a major share of companies' total carbon footprint in many sectors and provide important information for assessing transition-related risks across value chains.[1] MSCI supports comprehensive and comparable Scope 1, Scope 2 and Scope 3 disclosures and alignment with the GHG Protocol.[2] At a minimum, entities should disclose material Scope 3 categories to provide investors with relevant information on significant value-chain emissions.

3. **Industry-based metrics and disclosures should remain an important component of NZ IFRS S2.** Industry-specific information can provide investors with decision-useful information on climate-related risks and opportunities that vary across business models and industries.

[1] Breaking Down Corporate Net-Zero Climate Targets (MSCI).
[2] Corporate Standard (GHG Protocol, Corporate Standard).

4. **Climate scenario analysis should support assessment of a broad range of climate outcomes.** MSCI supports climate scenario analysis across short-, medium- and long-term horizons and consideration of diverse scenarios, including a high-temperature scenario. This can help investors assess exposure to severe physical climate-related risks, including acute and chronic hazards.

5. **Locally relevant modifications should be targeted and supported.** MSCI supports technical modifications that are necessary to ensure that NZ IFRS S2 operates effectively within New Zealand's legislative and regulatory framework. Where modifications are intended to reflect New Zealand-specific reporting practices and market circumstances, MSCI supports the XRB's proposed approach of requiring a clear rationale for any additions, removals or amendments to IFRS S2.

MSCI appreciates the opportunity to provide feedback on the Draft Climate Reporting Roadmap and would welcome continued engagement as the XRB develops the proposed exposure draft of NZ IFRS S2.

Please do not hesitate to contact us to discuss our submission.

Ngā mihi,

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Annex

Q1. Do you support the strategic direction for climate reporting set out in the draft climate reporting roadmap?

MSCI: MSCI supports the XRB's proposed strategic direction to introduce NZ IFRS S2 based on IFRS S2, together with the climate-relevant requirements of IFRS S1. This approach would align New Zealand's climate-related disclosure framework with internationally recognised standards and provide investors and other primary users with more consistent information to assess climate-related risks and opportunities.

As recognised in the Consultation document, the international climate disclosure landscape has increasingly shifted towards the ISSB Standards. MSCI therefore supports adopting IFRS S2 as the basis for NZ IFRS S2, rather than pursuing alignment through incremental amendments to the existing New Zealand Climate Standards. A defined transition to IFRS S2 can provide greater regulatory certainty while reducing unnecessary duplication for entities operating across jurisdictions or within international corporate groups.

MSCI also supports the proposed focus on harmonisation with Australia, particularly given the close relationship between the two markets. Greater interoperability between the respective frameworks can facilitate the use of comparable information by primary users and enable entities operating in both jurisdictions to make more efficient use of common systems, processes and expertise. In pursuing this objective, appropriate flexibility should be retained to accommodate differences in New Zealand's legislative and regulatory framework where necessary.

Q2. Do you have any further information you consider relevant to our consideration of the benefits and costs of the draft roadmap?

MSCI: MSCI agrees that the proposed roadmap can provide important benefits for primary users and climate reporting entities (CREs). Alignment with the ISSB Standards can facilitate the use of climate-related information across jurisdictions, while reducing the need for users to interpret different domestic reporting frameworks and limiting duplication for entities operating across multiple jurisdictions or forming part of multinational corporate groups.

In assessing the costs of transitioning from NZ CS to NZ IFRS S2, MSCI considers that both the incremental implementation costs and the longer-term benefits of an internationally interoperable framework should be considered. This would provide a more complete assessment of the implications of the proposed transition for CREs and primary users.

MSCI also considers the proportionality mechanisms within IFRS S2 to be relevant when assessing implementation costs. In particular, IFRS S2 requires an entity's approach to climate-related scenario analysis to be commensurate with its circumstances, taking into account its exposure to climate-related risks and opportunities and its available skills, capabilities and resources.[3] These mechanisms can help manage implementation costs while supporting the provision of decision-useful information.

[3] IFRS S2 Climate-related Disclosures (IFRS).

Q3. From a primary user perspective:

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

MSCI: MSCI considers that adopting IFRS S2 would enhance the consistency and usability of climate-related information available to investors. As a provider of sustainability and climate data and analytics, MSCI relies on consistent quantitative and qualitative disclosures to assess climate-related risks and opportunities across entities and portfolios. Differences in reporting requirements, methodologies, boundaries and definitions can make such assessments more resource-intensive and limit the effective use of reported information.

As outlined in the Consultation document, NZ CS and IFRS S2 are broadly aligned across governance, strategy, risk management, and metrics and targets. IFRS S2, however, introduces additional or more detailed requirements in certain areas, which can enhance the quality and availability of information used for investment analysis and decision-making.

(b) Which disclosures matter most to you?

MSCI: From MSCI's perspective, the following disclosures are particularly important:

- **Scope 1, Scope 2 and Scope 3 GHG emissions.** These disclosures provide insight into an entity's emissions profile and exposure to climate-related risks. Scope 3 emissions are particularly relevant in sectors where value chain emissions represent a significant proportion of an entity's overall carbon footprint and can inform the assessment of transition-related risks. Disclosure should capture, at a minimum, material Scope 3 categories.
- **Financed emissions.** For financial institutions, financed emissions provide insight into climate-related exposures arising from lending and investment activities. The Partnership for Carbon Accounting Financials (PCAF) provides a globally recognised methodology for measuring and reporting GHG emissions associated with financial activities.[4]
- **Current and anticipated financial effects**. Disclosures on the current and anticipated financial effects of climate-related risks and opportunities can help investors assess potential implications for an entity's financial position, financial performance and cash flows.
- **Climate targets and transition plans.** Disclosures on climate targets, progress towards those targets, related capital allocation and the use of carbon credits can help investors assess an entity's transition strategy and its progress towards stated climate objectives. Adopting standardized carbon credit disclosures can also enhance a company's attractiveness to investors by demonstrating how it plans to credibly offset unabated emissions or contribute to climate mitigation.

[4] The Global GHG Accounting and Reporting Standard for the Financial Industry (Partnership for Carbon Accounting Financials).

- **New Zealand Units (NZUs).** Companies can use NZUs to meet obligations under the New Zealand Emissions Trading Scheme or to support voluntary climate commitments.[5] We encourage the XRB to require companies to disclose NZU retirement and specify whether they were used for voluntary or compliance purposes, consistent with the ISSB Standards.

Q4. From a CRE perspective, should any of the IFRS S2 requirements (or incorporated climate-relevant portions of IFRS S1) be removed or changed?

MSCI: MSCI supports the proposed adoption of IFRS S2 and does not recommend broad removal of its requirements. While IFRS S2 contains more detailed requirements than NZ CS in areas such as GHG emissions, climate resilience, current and anticipated financial effects, industry-based disclosures and climate-related targets, MSCI considers that these differences should generally be addressed through the implementation of NZ IFRS S2. Existing proportionality mechanisms within IFRS S2 should also be considered before introducing New Zealand-specific departures, as maintaining alignment with the ISSB Standards can support greater consistency across jurisdictions.

MSCI supports retaining requirements relating to GHG emissions, including Scope 3 emissions, scenario analysis, climate resilience, current and anticipated financial effects, and climate-related targets and transition plans. We also support alignment with the GHG Protocol, as the use of consistent methodologies facilitates the assessment and comparison of reported emissions information. The GHG Protocol Corporate Standard provides requirements and guidance for corporate-level GHG inventories, while the Scope 3 Standard provides a framework for measuring and reporting value chain emissions.

Further considerations regarding industry-based disclosures, scenario analysis and potential New Zealand-specific modifications are set out in MSCI's responses to Questions 5, 6 and 7.

Q5. What are your views on the Australian harmonisation options for industry-based disclosures?

MSCI: MSCI supports Option 2, providing flexibility for industry-based metrics. This option would retain the IFRS S2 requirement to disclose industry-based metrics while changing the requirement to refer to and consider the applicability of the ISSB's Industry-based Guidance from "shall" to "may".

MSCI supports the use of industry-based disclosures, as climate-related risks and opportunities can vary significantly across sectors and business models. Such disclosures can therefore provide investors with relevant and decision-useful information. At the same time, Option 2 appropriately addresses the practical considerations identified in the Consultation document, including the volume of industry-based material that CREs may otherwise need to consider. Providing flexibility in the use of the Industry-based Guidance can reduce implementation complexity while retaining sector-specific disclosures.

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[5] Emissions Trading Scheme (ETS). Voluntary unit cancellations (New Zealand Environmental Protection Authority).

As the ISSB continues to develop the SASB Standards and related IFRS S2 Industry-based Guidance, MSCI considers that the XRB could review this approach over time to maintain alignment with international developments.

Q6. With regard to Australian harmonisation, what are your views on how we should approach scenario analysis?

MSCI: MSCI supports a scenario analysis requirement that remains closely aligned with IFRS S2 while facilitating trans-Tasman interoperability. Climate-related scenario analysis across short-, medium- and long-term time horizons can help entities assess the potential effects of climate change on their business models, value chains and resilience. IFRS S2 supports this objective by requiring entities to use climate-related scenario analysis to inform their assessment of climate resilience, while allowing an approach that is commensurate with their circumstances.

NZ CS currently requires the use of at least three climate-related scenarios, including a 1.5°C scenario and a scenario of 3°C or greater, while IFRS S2 does not prescribe a minimum number of scenarios or specific temperature outcomes. The Australian framework requires climate resilience assessments using at least two scenarios, including a 1.5°C scenario and a scenario that well exceeds 2°C. MSCI supports consideration of scenarios that reflect materially different climate outcomes, including a higher-temperature scenario. In this context, the Network for Greening the Financial System (NGFS) climate scenarios provide a useful reference framework for assessing a range of transition and physical climate outcomes.[6]

To support interoperability and avoid unnecessary duplication, the XRB could also consider whether scenario analysis undertaken by a CRE under an equivalent overseas framework may satisfy the relevant NZ IFRS S2 requirements where it provides substantively equivalent information. This approach could reduce the reporting burden for entities subject to multiple disclosure regimes while maintaining decision-useful information for primary users.

Q7. Are any changes or additions needed to NZ IFRS S2 to fit with New Zealand's reporting practice and market context?

MSCI: MSCI supports the XRB's approach of making technical amendments necessary for NZ IFRS S2 to operate effectively within New Zealand's legislative and regulatory framework. Beyond such necessary technical amendments, MSCI does not propose any additional New Zealand-specific changes or additions to NZ IFRS S2.

Maintaining close alignment with IFRS S2 can support consistency and comparability of climate-related disclosures across jurisdictions and reduce unnecessary differences for entities across markets. Where the XRB considers additional modifications to reflect New Zealand's reporting or market practices, we support its proposed approach of identifying a clear rationale for such modifications and considering their implications for global comparability and interoperability.

[6] NGFS Scenarios Portal (Network for Greening the Financial System, NGFS Climate Scenarios).

Q8. Do you support the proposed implementation timeline?

MSCI: MSCI supports the proposed availability of NZ IFRS S2 for early adoption and the phased transition to mandatory application. However, we consider that the proposed period to mandatory application from 1 January 2033 is lengthy, particularly given that the CREs already have experience reporting under NZ CS. We recommend that the XRB considers an earlier mandatory application date, while retaining early adoption and a reasonable transition period to allow CREs to adapt their systems and processes.

A phased approach can provide CREs with sufficient time to adapt the systems, processes and capabilities required to implement NZ IFRS S2, while providing clarity on the future direction of New Zealand's climate reporting framework. The option for early adoption also provides flexibility for entities that are prepared to transition sooner, including those whose group reporting processes or other reporting obligations are already aligned with IFRS S2.

MSCI also supports the XRB's proposed tailored approach to comparative information. Given CREs already have reporting experience under NZ CS, tailored transitional arrangements for prior-period information are appropriate and can support continuity and comparability as entities transition to NZ IFRS S2.

Q9. Do you have any other comments?

MSCI: MSCI welcomes the XRB's proposed focus on international alignment, harmonisation with Australia and appropriate consideration of New Zealand's reporting context. In this regard, the following considerations are particularly relevant to the development and ongoing application of NZ IFRS S2:

- **International alignment.** Alignment with the ISSB Standards should remain a central consideration in the development of NZ IFRS S2. As outlined in the Consultation document, adopting IFRS S2 provides a clearer long-term framework than pursuing alignment through incremental amendments to NZ CS.
- **Evolving sustainability reporting landscape.** MSCI supports the XRB's continued monitoring of international developments, including those relating to impact and double materiality reporting and the broader sustainability reporting architecture.
- **Mid-tier climate reporting.** MSCI welcomes further consideration of internationally aligned reporting approaches for mid-tier entities. This could provide an appropriate pathway for entities seeking to report climate-related information while remaining consistent with the broader international framework.
- **Implementation and interoperability.** Continued attention to implementation guidance and interoperability can support effective application of NZ IFRS S2. Consistency in definitions, methodologies and reporting approaches can also facilitate the use of climate-related information across markets.

As NZ IFRS S2 is developed and subsequently updated, maintaining alignment with the ISSB Standards, while allowing for modifications that reflect New Zealand's legislative, regulatory and market context, can support consistency with the broader international framework. Consideration of the potential implications of any such modifications for cross-jurisdictional comparability and interoperability would also be beneficial.