Response to the XRB Draft Climate Reporting Roadmap Consultation

From Northern Trust Asset Management

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About Northern Trust Asset Management (NTAM)

NTAM is among the world's largest asset managers and is entrusted by investors around the globe to help them navigate changing market environments and realize their long-term investment objectives. We help investors future-fit their portfolios by bringing clarity to investment opportunities and through the understanding of portfolio risks and returns that may arise from financially material environmental, social, and corporate governance factors. NTAM supports investors' access to clear, consistent, comparable and decision-useful information about material climate-related risks and opportunities. As an institutional investor operating across multiple markets, we use corporate climate disclosures to inform investment research, portfolio risk assessment, stewardship and engagement.

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

We support the proposed strategic direction of issuing NZ IFRS S2 based on IFRS S2, seeking appropriate harmonization with Australia, and making only those local modifications that are necessary for New Zealand's legislative, regulatory and market context. Adoption of a framework based closely on IFRS S2 should make New Zealand disclosures easier to compare with information produced in jurisdictions adopting or moving toward ISSB-based standards.

We also support harmonization with Australia where it improves trans-Tasman comparability and reduces unnecessary duplication. New Zealand and Australian entities, investors and financial institutions frequently operate in both markets. Comparable requirements should help users analyze issuers across the region and may reduce the need for groups operating in both jurisdictions to maintain materially different climate-reporting systems.

However, harmonization should not become an objective in isolation. Our preferred hierarchy is:

1. Preserve information that is financially material and decision-useful to primary users.
2. Maintain close alignment with the ISSB global baseline.
3. Harmonize with Australia where doing so supports comparability and does not materially reduce disclosure quality.
4. Introduce New Zealand-specific modifications only where there is a compelling legal, regulatory or market-based rationale.

Any substantive divergence from IFRS S2 or AASB S2 should therefore be clearly identified and accompanied by an explanation of the user benefit, implementation effect and expected impact on comparability.

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

The principal benefit for investors is improved comparability. A broadly consistent set of governance, strategy, risk-management, metrics and targets disclosures would make it easier to compare entities across New Zealand, Australia and other ISSB-aligned jurisdictions. AASB S2 requires information across these four areas in relation to climate-related risks and opportunities.

Alignment may also:

- Help increased visibility of climate-related risks and informed capital allocation;
- reduce the need for investors to maintain New Zealand-specific analytical mappings;
- make reported information easier to incorporate into global investment and stewardship processes;
- reduce duplication for entities reporting to investors in multiple jurisdictions;
- support more consistent data collection by third-party climate-data providers;
- improve the connection between climate disclosures and general-purpose financial reporting; and
- give reporting entities access to a broader international body of implementation guidance, professional expertise and assurance practice.

Q3. From a primary-user perspective, would adopting IFRS S2 improve the climate information you rely on? Which disclosures matter most?

Adoption should improve usability and comparability, provided the core IFRS S2 requirements are retained and consistently applied. Below are some important considerations:

1. Greenhouse-gas emissions

Gross Scope 1, Scope 2 and material Scope 3 emissions, together with reporting boundaries, methodologies, key assumptions, estimation methods, restatements and data-quality limitations, are fundamental inputs to climate analysis. Scope 3 information is particularly important for sectors where value-chain emissions represent the majority of the climate exposure.

2. Transition plans and implementation

Investors need more than a statement of ambition. Decision-useful information includes the actions through which an entity intends to achieve its objectives; interim milestones; capital expenditure and operating expenditure implications; dependencies on policy, technology, customer behavior and carbon markets; governance and accountability; use of offsets or carbon credits; progress against previous commitments; and changes to assumptions or strategy.

3. Climate resilience and scenario analysis

Scenario analysis is useful when it explains how the entity's strategy and business model may perform under plausible transition and physical-risk conditions. The disclosure should include the scenarios selected, time horizons, temperature outcomes, assumptions, limitations, variables and resulting strategic conclusions. The greatest value comes from understanding management's conclusions and planned actions, not from receiving a model output without sufficient explanation. Scenario results should be accompanied by transparent caveats, particularly where models do not fully capture tipping points, indirect effects or nonlinear physical risks.

4. Industry-based metrics

Climate risks and opportunities manifest differently across industries. Sector-specific metrics can therefore improve comparison among entities with similar business models and exposures. Information on operational emissions may be central for one industry, while financed emissions, energy efficiency, product exposure, physical assets or reserves may be more relevant in another.

5. Governance and risk management

Investors need sufficient information to understand oversight, accountability, expertise, incentives and how climate risks are integrated into enterprise-risk management, strategic planning and capital allocation.

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

We recommend requiring disclosure of material industry-based metrics, with IFRS S2 industry guidance serving as the principal reference point but allowing justified alternatives.

Industry-based information is valuable because climate risks, opportunities and relevant operating drivers vary substantially by sector. It supports comparison among industry peers; assessment of sector-specific transition exposure; more informed capital allocation; identification of leaders and laggards; and engagement on metrics relevant to an entity's actual business model.

The Australian standard setter plans further work on mandatory industry-based requirements. This supports retaining some flexibility during the period in which Australian requirements continue to develop. Nevertheless, deleting the industry-based requirement solely to achieve short-term consistency with Australia could weaken information available to investors and create another transition when Australia later introduces mandatory requirements.

We therefore encourage the XRB to coordinate with the AASB, but not to remove decision-useful sector information simply because the two implementation timelines differ.

Q6. With regard to Australian harmonization, how should XRB approach scenario analysis?

We recommend requiring at least two scenarios covering materially different climate outcomes:

- A scenario aligned with limiting warming to approximately 1.5°C; and
- A higher-warming scenario that captures material physical-risk exposure.

This would support trans-Tasman consistency because Australian legislation requires analysis of two temperature-defined scenarios, including a 1.5°C scenario and a scenario in which warming well exceeds 2°C.

Entities should be permitted to include additional scenarios where these are relevant to their business model, sector or geographic exposure. However, the XRB should avoid requiring an unnecessarily large number of scenarios. More scenarios do not automatically produce more useful information and may make disclosures difficult to interpret.

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

We support technical modifications required to make NZ IFRS S2 consistent with New Zealand legislation, institutional terminology and regulatory responsibilities. We would also support locally relevant guidance, examples and contextual material that help entities apply IFRS S2 effectively.

However, we recommend distinguishing between changes to the standard, which may affect international comparability or compliance, and New Zealand implementation guidance, which can address local circumstances without modifying the underlying requirements. Where possible, local issues should be addressed through guidance rather than permanent amendments.

These additions should not prevent an entity from presenting disclosures that are clearly identifiable as consistent with IFRS S2. The roadmap states that New Zealand-specific modifications could affect an entity's ability to claim compliance with ISSB climate requirements, which makes transparency about each modification important.

We also encourage the XRB to retain useful aspects of NZ CS where they provide information beyond the IFRS S2 baseline and are valued by users, provided these are clearly presented as New Zealand additions and do not obscure IFRS S2 compliance.

Q8. Do you support the proposed implementation timeline?

We support early adoption, but we recommend reconsidering the proposed mandatory date of 1 January 2033. The proposed long transition supports stability and gives reporting entities time to prepare, however, operating two frameworks for more than six years could:

- reduce comparability among New Zealand entities;
- create discontinuities in market and provider datasets;
- complicate index and portfolio-level analysis;
- disadvantage entities that incur early-adoption costs while peers remain under NZ CS;
- defer the full benefits of international alignment.

We recommend a staged pathway with clearly defined milestones and an earlier mandatory date, subject to evidence on preparer and assurance readiness.

Q9. Do you have any other comments?

We have below additional recommendations:

1. Establish a clear process for future alignment

The roadmap should explain how future amendments to IFRS S2 and AASB S2 will be monitored, assessed and incorporated into New Zealand requirements. Maintaining international comparability will require ongoing alignment as standards evolve. At the same time, reporting entities need sufficient certainty and lead time to implement changes effectively. We therefore encourage the XRB to adopt a transparent mechanism for assessing future amendments, supported by appropriate consultation, transition arrangements and implementation guidance where necessary.

2. Evaluate success from a user perspective

The XRB should evaluate whether implementation improves comparability across entities and reporting periods; completeness and consistency of emissions information; transparency of assumptions and estimation uncertainty; connectivity with financial reporting; usefulness of scenario analysis; credibility of transition-plan disclosures; and use of climate information in investment, lending and stewardship decisions. The success of the roadmap should not be assessed only by whether reports comply technically. It should also be judged by whether primary users receive more reliable, comparable and decision-useful information.

3. Provide practical implementation support during transition

Given the scale of the proposed transition from NZ CS to NZ IFRS S2, we encourage the XRB to provide timely implementation guidance, illustrative examples and educational resources, particularly in areas where IFRS S2 introduces new or more detailed requirements. Priority areas could include:

- application of materiality;
- climate resilience and scenario analysis;
- transition-plan disclosures;
- industry-based metrics; and
- disclosure of judgments, assumptions and estimation uncertainty.

Practical guidance would help promote consistent implementation and improve the comparability of disclosures during the transition period.