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External Reporting Board
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By email: climate@xrb.govt.nz

Submission on the Aotearoa New Zealand Climate Standards

Background

The Australasian Investor Relations Association (AIRA) submits this response to the External Reporting Board (XRB) in relation to the XRB's consultation dated July 2022 on the proposed Aotearoa New Zealand Climate Standards (**Climate Standards**).

AIRA is the peak body representing investor relations practitioners in Australia and New Zealand. Our members include the majority of NZX 20 companies. We exist to provide listed entities with a single voice in the public debate on corporate disclosure (including listed entities communications and engagement on ESG) and to improve the skills and professionalism of members. Our vision and purpose is that investor relations enables and creates sustainable value for all capital market stakeholders by building and strengthening market confidence in listed and unlisted entities.

AIRA is supportive of the continued development of a climate-related reporting framework for Aotearoa New Zealand. We acknowledge the significant efforts of the XRB in developing the new regime.

We thank the XRB for the opportunity to make this submission, and note that nothing in this submission is confidential.

Response to consultation

We set out below, our responses to the questions contained in the consultation materials. We have omitted questions where we do not have submission feedback.

QUESTION 1(b) - Do you consider that draft Aotearoa New Zealand Climate Standards are clear and unambiguous in terms of the information that is to be disclosed? If not, how could clarity be improved?

We consider the following areas could be improved:

National datasets for consistent reporting

- XRB has outlined reporting principles in NZ CS3 that include verifiability, comparability and consistency. These qualitative principles are designed to ensure reporting entities provide disclosures that can be traced back to source and allow investors to track performance over time. XRB has noted that climate-related disclosures are more comparable when they provide points of reference (eg targets, a baseline, or an industry benchmark). In preparing the scenario analysis (including the sources of data used to construct each scenario), we consider there should be up-to-date national datasets produced to help reporting entities develop consistent and comparable reporting. This would allow the reporting entities to work from the same basic assumptions. As an example, the National Climate Change Risk Assessment was prepared in 2020 – this could be updated to provide reporting entities with a baseline to work from. If reporting entities are expected to build their own datasets from scratch, they will have to spend time and resources (ie increased compliance cost calling on a limited pool of expertise) producing scenarios that may or may not allow an investor to compare disclosures across different reporting entities.

Materiality threshold is still uncertain

- The current materiality definition sets out that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value. We agree with the use of the enterprise value as the baseline metric for materiality. However NZ CS3 goes on to note that entities need to take a broad view when considering how their impact on the climate could reasonably be expected to affect the assessments that primary users make about an entity's enterprise value. We appreciate that each reporting entity is different and it must apply the disclosure requirements to its own specific facts and circumstances – however, the broad brush approach without clear guidance will likely mean that entities will take a conservative approach and over-report immaterial details to meet their compliance obligations. The risk is that this over-reporting will make the reporting less useful for investors and there will be inconsistent reporting between entities.
- We also note that, under NZ CS3, an entity whose climate-related disclosures comply with Aotearoa New Zealand Climate Standards must include 'an explicit and unreserved statement of compliance'. We have concerns about being required to make this type of statement while the new regime beds in and reporting entities scale up their expertise and capacity. The uncertainty around the materiality threshold alone makes it difficult to give an unreserved statement about compliance. We suggest that this 'explicit and unreserved statement of compliance' should be included in the transition provisions so that it's only required from reporting period three, once entities have had an opportunity to build their expertise and test compliance with the new regime.

Consistent international approach

- As XRB has noted, the International Sustainability Standards Board (ISSB) is developing IFRS Sustainability Disclosure Standards, which, when final, are intended to form a comprehensive global baseline of sustainability disclosures to provide information for investors when assessing enterprise value. We support XRB's coordinated approach to the development of climate-related disclosure standards so that the NZ standards can provide consistent and comparable concepts, terminologies, and metrics on which disclosure requirements are built – this allows reporting entities to report against a comparable framework for our international and local investors and won't put NZ out of step against international standards.

Closing comments

We would be happy to discuss the matters raised in this submission with you.

Yours sincerely

A handwritten signature in black ink that reads "Ian Matheson". The signature is written in a cursive style with a horizontal line underneath the name.

Ian Matheson
Chief Executive Officer