



Questions asked at the Climate-related Disclosures launch event

20 October 2021

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Alignment

1. How aligned are the proposed sections of NZ CS 1 with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)?

One of the XRB’s design principles is to make sure that NZ CS 1 is aligned with the TCFD’s recommendations. We consider that the proposed sections on Governance and Risk Management are broadly aligned with the TCFD’s main recommended disclosures, as well as their guidance. Tables 6 and 7 in Annex 2 of the [consultation document](#) (beginning page 32) provide commentary on differences between the proposed sections of NZ CS 1 and the TCFD recommendations and guidance.

2. How will New Zealand’s climate-related disclosure framework be aligned with other jurisdictions and international-level work on disclosure rules?

The XRB is keeping track of other climate-related reporting requirements. This includes at a jurisdictional level (like individual country requirements, or the work being done by the European Financial Reporting Advisory Group for European Union sustainability standards), and at an international level.

For the latter, the upcoming launch of the International Sustainability Standards Board (ISSB) and their preparatory work on a climate-related disclosure standard is a significant development. There are however many uncertainties. These include what the final form of this standard will be, the extent to

which it will be globally adopted, and the date at which the standard will be finalised. The XRB is staying connected to these developments to ensure a degree of compatibility as appropriate but does not want to hold up progressing the development of New Zealand's standards while waiting for the ISSB's standard to be published.

3. How will the climate-related disclosures be aligned with the National Climate Change Risk Assessment (NCCRA)?

The NCCRA is an important document and is designed to provide a national overview of risks facing New Zealand to inform decision makers. The risks identified in the NCCRA may help to inform climate reporting entities when assessing their own, specific climate-related risks and opportunities. The XRB will look to make use of the NCCRA and many other documents in the guidance we are developing.

4. Will disclosure requirements be aligned with 1.5 or 2 degrees Celsius?

The TCFD's guidance for all sectors recommends that entities should describe the resilience of their strategies taking into consideration a 2°C or lower scenario. In their most recently released guidance (issued mid-October 2021), the TCFD has explicitly stated that:

[in] interpreting the phrase "2°C or lower," organizations should consider aligning their scenario analysis with Article Two of the 2015 Paris Agreement which commits parties to "holding the increasing in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."

The XRB is actively considering the TCFD's updated guidance and determining whether NZ CS 1 should specify whether entities should consider specific temperature levels as part of the disclosure requirements.

5. How will the climate-related disclosures be aligned with the Reserve Bank of New Zealand (RBNZ)'s prudential regulatory requirements?

The RBNZ and the XRB are working together to ensure that the XRB's climate standards and RBNZ requirements are aligned, to the fullest extent possible.

The RBNZ requires its regulated entities to make certain disclosures under current regulations. For instance, registered banks must publish six-monthly disclosure statements that include their financial statements along with additional information on prudential capital adequacy and liquidity positions, and on their impaired asset profile. They do not require banks to disclose any specific climate risk items and do not have current plans to add additional information on climate risks to existing disclosure requirements. Instead, the RBNZ expect entities will comply effectively with the XRB's forthcoming climate standards and guidance.

The RBNZ will support regulated entities do so by publishing a guidance note for regulated entities on best practice management of climate risks, which will cover what firms should do, rather than what they should *disclose*.

To date, the XRB has focused on governance and scenario analysis. Currently, the RBNZ and FMA are undertaking a joint cross-sector thematic review on governance. This work is broader than the XRB's proposed disclosures relating to governance, as they only apply to the governance of climate-related risks and opportunities. The XRB considers these two pieces of work to be complementary.

Regarding scenario analysis, the XRB is currently liaising with the RBNZ to better understand the scenarios developed by the Network for Greening the Financial System and how we can align, if appropriate, the scenario analysis aspect of our standards with the RBNZ's supervisory work and stress testing on climate change.

Data and scenario analysis

6. Will scenario analysis be required in NZ CS 1?

The TCFD's recommended disclosure (c) under the Strategy section asks entities to "Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario". As the XRB is aligning closely with the TCFD, they are highly likely to include some form of scenario analysis requirement. However, the XRB are also aware that this is one of the more complex parts of the TCFD recommendations and so will seek stakeholder views on this topic (at any point, and especially in March 2022 when consulting on the proposed Strategy section of NZ CS 1).

7. What data, standardised scenarios, or guidance will be made available to climate reporting entities?

The XRB is not, at this time, intending to construct reference scenarios for use by climate reporting entities. However, they are aware of various sectors coming together, or considering coming together, to construct scenarios to be used for the purposes of entity level scenario analysis. The XRB considers that effective coordination within sectors could reduce costs and time in constructing scenarios, and improve the quality, comparability and consistency of scenario analysis.

The XRB also recognise there are concerns about the accessibility of climate-related data to support scenario analysis in New Zealand. Access to climate data is a common issue that is being raised by reporting entities globally and this is a challenge that New Zealand entities are not alone in facing. There are a range of government agencies that will need to work together on this topic, and the XRB is liaising with these agencies to determine whether climate data could be made more accessible to support entities on their scenario analysis journeys.

Reporting requirements

8. How is an entity classified as a climate reporting entity? Through size, listing on the stock exchange etc.?

Entities are classified as climate reporting entities through several ways:

Entity type	Threshold
Registered banks, credit unions, and building societies	Greater than \$1 billion in total assets
Managers of registered investment schemes	Total assets under all schemes managed by the manager or managed by an authorised body under the manager's market service licence are greater than \$1 billion
Licensed insurers	Greater than \$1 billion in total assets under management or annual premium income greater than \$250 million
Equity and debt issuers listed on the NZX	Market capitalisation exceeds \$60 million

Other than debt issuers, thresholds are determined as at the balance date and apply to each of the two preceding accounting periods. Threshold for debt issuers is determined at any time in the two preceding accounting periods. The XRB understands that any authorised body that provides the service of acting as a manager of a registered scheme under a large manager's market services licence will also be considered a climate reporting entity. An entity should seek legal advice if it is uncertain if the legislation applies to it.

9. Will managers of registered investment schemes be required to make disclosures on a fund-by-fund basis? Would this mean one manager would have to make multiple disclosures in a year?

The XRB's understanding of the climate-related disclosure legislation is that yes, managers of registered investment schemes would be required to make disclosures on a fund-by-fund basis. However, the climate-related disclosure legislation does not prevent climate statements in relation to an accounting period and a registered scheme from being combined in a single document.

10. Will there be any differentiated reporting requirements, e.g., across different industries, or for different types of climate reporting entities?

The XRB is currently of the view that sector-specific information will be provided in guidance, rather than in NZ CS 1 itself. This includes guidance based on the TCFD's sector-specific guidance (e.g., for disclosures recommended for financial institutions). However, they are also seeking feedback on this view (see question 8 in the [consultation document](#)).

11. Will New Zealand entities that are subsidiaries of multi-nationals that already disclose according to the TCFD recommendations be required to disclose? Will they have separate reporting requirements?

The XRB understands that any entity that is classified as a climate reporting entity according to the climate-related disclosures legislation will be required to report under the regime, whether or not they are a subsidiary of a multi-national organisation. Such entities are unlikely to have separate reporting requirements but will likely be in a good position for reporting under NZ CS 1 because of the reporting done at their parent level.

12. Why has mandatory reporting been delayed until 2024?

The reporting has not been delayed. Mandatory reporting will commence as soon as the XRB issues its first climate standard (which they are aiming to do in December 2022). This means that entities will be required to disclose according to the standard for accounting periods that start on or after 1 January 2023. Accounting periods last (usually) for a year, so while the work will be underway within the first climate reporting entities from the beginning of 2023, the reporting itself can only occur at the end of the accounting period. So, for those entities with 1 January 2023 to 31 December 2023 reporting periods, reporting will occur within four months after the end of the first reporting period (so, by April 2024).

Technical reporting matters

13. Can a reporting entity make their climate change disclosure as part of their existing annual or financial reporting, or does a separate disclosure need to be made?

The climate-related disclosure legislation requires the disclosures to be made in a 'climate statement'. The legislation specifically requires that climate reporting entities must include, in their annual reports, a statement that the entity is a climate reporting entity, together with a copy of the climate statements or group climate statements prepared by the entity, or the address of (or a link to) the internet site where a copy of these statements can be accessed.

However, the legislation does not specify the format of the climate statement. The XRB is currently working through whether any presentation requirements might be required (e.g., a reference table in an annual report in the instance that climate disclosures are included throughout an annual report).

14. In what section does identification of risks and opportunities, and responses to these (including disclosures about approaches used such as scenario analysis), sit?

These disclosures are part of the Strategy section that the XRB will be consulting on in March 2022.

15. How will scope 3 emissions be considered within NZ CS 1?

Emissions disclosures are part of the Metrics and Targets section of the NZ CS 1. Recently released guidance from the TCFD has strongly indicated that scope 3 emissions should be disclosed. The XRB is taking this guidance into account as it drafts this section, which will be consulted on in March 2022.

16. Is consistency of reporting across different entities likely to be a challenge, especially early on?

The XRB is aware that there will be variability in the extent and maturity of reporting against NZ CS 1, especially in the early days. The XRB are drafting guidance that is intended to reduce this variability and enhance reporting consistency, and intend to keep this up to date as best practice and investor expectations evolve.

Environmental, social and governance reporting

17. How will environmental, social and governance (ESG) issues be integrated together with climate-related disclosures?

The climate-related disclosure legislation allows for the XRB to issue guidance on ESG matters. The XRB are initiating a project in this area which is also considering Te Ao Māori in the context of reporting in Aotearoa New Zealand as a whole. They are currently focusing work on climate due to the new mandatory regime enabled by the legislation but see climate-related disclosures as an important element of wider ESG reporting.

18. Is the XRB planning to release standards relating to the Task Force on Nature-related Financial Disclosures?

The XRB is not currently working on standards relating to the Task Force on Nature-related Financial Disclosures. However, they are intending to consider all relevant material in the development of guidance on ESG matters.

Assurance

19. Will there be a need for the information disclosed to be independently assured?

The legislation requires climate reporting entities to ensure that aspects of climate statements that disclose GHG emissions are the subject of an assurance engagement. It also requires that any assurance practitioners carrying out this work must comply with all applicable auditing and assurance standards issued by the XRB.

Getting ready for disclosures

20. The XRB has previously said for entities not to wait until NZ CS 1 is published to think about climate-related disclosures. What can entities do now to get ready?

The XRB recommends three main things for entities to get ready:

- *Explore*: There's a wealth of information readily available (such as in the TCFD Knowledge Hub). Get familiar with the terminology and identify where you might need (expert) help.
- *Engage*: Form a coalition of the willing (with senior roles and/or a senior sponsor) from across your organisation and start a conversation about what implementation might look like.
- *Measure*: Assess your current footprint and understand what measuring GHG emissions might involve.

21. How can we upskill business leaders and directors to really engage in this disclosure regime effectively – seeing it not as compliance, but a business opportunity?

The XRB has heard from numerous TCFD early adopters about the significant value they gained from climate-related disclosure. This ranges from better understanding of their value chain, more sophisticated strategy and risk management processes, and to better asset allocation decisions. These are all benefits above and beyond understanding of climate risk and opportunities specifically.

The XRB encourages entities that have yet to start on their climate reporting journey to learn from these early adopters about the value of the process, and the insights they have gained along the way.

FMA supervision

22. How will this regime be supervised by the FMA? Will the FMA guidance be similar to the XRB's guidance?

The FMA is responsible for independent monitoring and enforcement of the climate-related disclosures regime, as well as providing guidance about compliance expectations, and reporting the findings of their monitoring. The FMA is currently scoping their regulatory and enforcement approach but they note that their approach will be heavily dependent on the climate standards issued by the XRB. The FMA's guidance will focus on compliance expectations, while the XRB's guidance will focus on implementation of the disclosure requirements.

Public sector reporting

23. Will public sector organisations be required to reporting their compliance with the XRB's climate standards from 2022 or will a different framework apply? If the latter, will they be aligned with the XRB's standards?¹

Under the Carbon Neutral Government Programme (CNGP), every public agency will be required to measure and publicly report on their emissions and offset any emissions they cannot cut by 2025.

CNGP requirements for government agency reporting relate directly (but not exclusively) to the Task Force on Climate-related Financial Disclosures (TCFD) framework recommended disclosures for the Metrics and Targets: part b) disclose GHG emissions, and part c) targets used to manage climate related performance.

CNGP requirements involve emissions reporting (or accounting) aligned with the GHG Protocol and/or ISO14064-1, and then disclosing certain information in their annual reports (i.e., their emissions profile, total emissions, reduction targets and progress against those targets). CNGP organisations have to have their emissions verified/assured in accordance with the Assurance Engagements on Greenhouse Gas Statements (ISAE (NZ) 3410) standard or the ISO 14064-3:2019 standard.

24. Will the proposed disclosures regimes under the Carbon Neutral Government Programme apply to local authorities, and will it rely on similar TCFD aligned accounting standards?

Local authorities are not mandated to follow the CNGP requirements, but many are already measuring their emissions and we encourage any public sector organisation to join in with the Programme.

¹ Responses to questions 23-26 provided by Ministry for the Environment.

Taxonomy

- 25. One of the challenges for reporting entities is the absence of an agreed "green" taxonomy internationally, so we know what products are classified as green and not green. How important do you see the development of a green taxonomy?**

The Government is considering the best approach to provide transparency and support 'green' investments in New Zealand's capital markets. We are monitoring work internationally through the International Platform on Sustainable Finance on how a common taxonomy is evolving.

Emissions Reduction Plan Consultation

- 26. The Emissions Reduction Plan is also out for consultation with a very similar end date. Was this planned?**

No.

Entities outside scope

- 27. How well placed are businesses that are not climate reporting entities under the CRD Bill to understand the impact of climate change on them, and the broader NZ economy?²**

The smaller NZX listed equity issuers are well placed to understand climate risks and consider their long-term climate risks and opportunities.

This is because the NZX Corporate Governance Code requires all issuers of equity securities to disclose, in their annual report, whether it has complied with each recommendation in the Code. Recommendation 4.3 requires the reporting of material non-financial information including "material exposure to environmental, economic and social sustainability risks". They also have to explain how they plan to manage those risks.

Climate reporting entities need to understand the climate-related risks facing the businesses in which they invest to understand their own climate-related risks. Banks, for instance, may therefore require entities they do business with to provide them with information on the entities' climate-related risks.

Greenwashing

- 28. What assurance do we have that large accounting firms won't hijack reporting to suit them?**

We have interpreted the question to relate to concerns that disclosures on climate-related risks and opportunities (according to the climate standards) could mislead by exaggerating 'green' credentials, i.e., 'greenwashing'.

Climate reporting entities can either prepare the climate statements themselves, or outsource them to providers. We recognise that large accounting firms do have the expertise to assist entities prepare their climate statements. While some providers may consider there are financial incentives to engage in 'greenwashing', there are safeguards to limit such risks. Firstly, entities that outsource their disclosure obligation remain responsible for the climate statements. Like financial statements, disclosing entities

² Responses to questions 27-29 provided by Ministry for Business, Innovation and Employment.

and their directors are exposed to legal consequences should the climate statements not comply with the applicable disclosure requirements.

Secondly, the Financial Markets Authority's (FMA) role as the independent conduct regulator includes supervising climate reporting entities and checking that they do comply with their climate reporting obligations and they can support their claims. The FMA's expectations of disclosing entities around protecting investors from greenwashing can be found in their disclosure framework for integrated financial products, <https://www.fma.govt.nz/assets/Guidance/Disclosure-framework-for-integrated-financial-products.pdf>. Such expectations can be extended to include climate statements greenwashing although the FMA expects to issue separate guidance for that later next year.

In addition, when the greenhouse gas emissions in climate statements are required to be assured, assurance practitioners undertaking assurance engagements have to comply with applicable auditing and accounting standards under the FMC Act. Failure to do so could result in regulatory action by the FMA.

Tenders

29. Will government be using this kind of reporting to make decisions on awarding tenders? That could really encourage voluntary disclosure by organisations not currently required to report under this legislation.

Government agencies are able to take reporting that comply with TCFD recommendations or the XRB's climate standards into account when awarding tenders under New Zealand's existing government procurement policy framework. For example, rule 20 in the Government Procurement Rules requires agencies to consider requirements to transition New Zealand to a net zero economy, which would allow agencies to require reporting of climate-related risks and opportunities according to the XRB's climate standards by bidders.