

22 November 2021

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Chair
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Submitted electronically via www.xrb.govt.nz

Dear Michele

Climate-related Disclosures: Governance and Risk Management Consultation Document

1. The purpose of this submission is to provide the External Reporting Board (“XRB”) with BDO’s comments on *Climate-related Disclosures: Governance and Risk Management Consultation Document* (“the Consultation Document”). More information on BDO is provided in Appendix A to this letter. Our response to each of the questions posed in the Consultation Document is provided in Appendix B to this letter. Thank you for the opportunity to comment on the Consultation Document.
2. BDO notes that there is increased investor interest in information on the climate-related issues that an entity faces and the manner in which it addresses those issues. BDO consequently considers it appropriate that the XRB’s remit has been expanded to incorporate standard setting in this area.
3. BDO notes the XRB’s current intention, outlined in the Consultation Document, that the New Zealand climate-related disclosures framework will comprise three documents that have mandatory status - Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (“NZ CS 1”), which will be principles-based and succinct, Aotearoa New Zealand Climate Standard 2: *Adoption of Climate-related Disclosures* and *Aotearoa New Zealand Climate-related Disclosures Concepts*. BDO considers this structure to be appropriate.
4. Further, BDO notes the XRB’s current intention, outlined in the Consultation Document, to issue accompanying guidance documents, which will provide additional explanations, further information and examples. BDO also considers this to be appropriate. However, we note that, where high-quality guidance material has been made available in relation to financial reporting, some preparers have adopted that guidance without sufficiently adapting it for the entity’s specific circumstances. We would not like to see that situation occur in relation to climate-related disclosures and consequently suggest that the guidance material does not contain comprehensive examples of generic disclosures. In addition, we recommend that provided examples are accompanied by a statement to the effect that they are for illustrative purposes only and that a preparer’s climate-related disclosures must provide entity-specific information.
5. In addition to the above, BDO supports the proposed Governance and Risk Management disclosures.

6. Despite BDO's support for both the overall approach to standard setting in relation to climate-related disclosures and the specific Governance and Risk Management disclosures proposed for inclusion in NZ CS 1, BDO has one potential concern, which relates to the basis for standard setting in this area. BDO considers that New Zealand's capital markets, businesses and investors have gained substantially from New Zealand's decision to adopt International Financial Reporting Standards. Now that there is an international commitment to the development of high quality global sustainability disclosure standards through the International Sustainability Standards Board ("ISSB"), we wonder if New Zealand would similarly benefit from being a standard-taker in relation to sustainability standards.
7. We note that the XRB's climate-related disclosures are based on the work of the Task Force on Climate-related Financial Disclosures ("TCFD") and that the ISSB will also utilise the TCFD's work. We further note the XRB's stated intention to work closely with the ISSB on the development of sustainability disclosure standards where possible. We nevertheless consider it inevitable that there will be divergence between the standards developed by the XRB and the standards developed by the ISSB.
8. We acknowledge that the current timeframe for development of climate-related disclosure standards in New Zealand requires the XRB to continue its current path of standard development. We further note that sustainability disclosure standards promulgated by the ISSB will likely be released later than the XRB's climate-related disclosure standards. However, we believe that consideration may need to be given to whether it is still appropriate for New Zealand to continue on its current standard setting path, given these recent international developments.
9. Given all of the above, we suggest that consideration be given to whether it is appropriate for New Zealand to:
 - a. Continue on its current path of setting its own climate-related disclosure standards; or
 - b. Cease the development of its own climate-related disclosure standards until it is clear whether it will be appropriate to adopt the sustainability standards to be developed by the ISSB.
10. We are concerned that, if this matter is not considered at this juncture, it will need to be considered when the ISSB issues its first sustainability standards. Further, we are concerned that New Zealand may end up with sustainability/climate-related disclosure standards that are out of step with those adopted in other countries with developed capital markets, which would be disadvantageous to New Zealand businesses, or that preparers may be required to transition from one set of standards to another, which would be disruptive.
11. Finally, our comments above notwithstanding, BDO would like to congratulate the XRB on the work that it has done to date on the development of climate-related disclosures, as reflected in the Consultation Document. We understand that this is a complex area in which to set standards, as it is rapidly evolving and there is substantial public interest, and that your work has been done in very tight timeframes. Despite these constraints, as outlined above we consider that you have been able to develop an appropriate overarching framework for New Zealand's climate-related disclosures, as well as drafting the first of those disclosures.
12. We acknowledge that this submission may be made publicly available.

13. If you require further information or would like to discuss any aspect of our submission further, please do not hesitate to contact either of the undersigned.

Yours sincerely
BDO New Zealand



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**APPENDIX A:
INFORMATION ON BDO**

1. BDO is a network of eleven independently owned accounting practices, with sixteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 93 partners and over 850 staff.
4. Three BDO firms in New Zealand (BDO Auckland, BDO Christchurch and BDO Wellington) are registered audit firms and, between them, those firms have eleven licensed auditors.
5. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 91,000 people working out of 1,658 offices across 167 countries and territories.

**APPENDIX B:
RESPONSES TO QUESTIONS POSED IN THE CONSULTATION DOCUMENT**

1. Our response to each of the questions posed in the Consultation Document is provided in the table below:

Question	BDO response
<p><i>Question 1:</i></p> <p>Primary users have been identified as existing and potential investors, lenders and insurance underwriters. Do you think that all of these users should be included in the primary user category?</p>	<p>We consider that the list of primary users of climate-related disclosures identified in the Consultation Document is appropriate. We consider that the parties identified are those most likely to have an interest in this information and we note that broadening the scope further risks requiring preparers to provide specialised information that is useful to only a limited number of parties.</p>
<p><i>Question 2:</i></p> <p>Do you think the proposed Governance section of NZ CS 1 meets primary user needs?</p> <p>a) Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.</p> <p>b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?</p> <p>c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?</p>	<p>We consider that the information required is clear. However, for investment schemes, we do not consider that it is sufficiently clear at which level the reporting is required to ensure consistent reporting across the sector.</p>
<p><i>Question 3:</i></p> <p>Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?</p> <p>a) Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.</p>	<p>We consider that the information required is clear. However, for investment schemes, we do not consider that it is sufficiently clear at which level the reporting is required to ensure consistent reporting across the sector.</p>

Question	BDO response
<p>b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?</p> <p>c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity? If not, what should be removed or added to achieve a better balance?</p>	
<p><i>Question 4:</i></p> <p>The XRB has primarily drawn from the TCFD’s definitions for its defined terms. Do you agree that we should align closely with the TCFD’s definitions?</p>	<p>BDO believes that consideration needs to be given to whether New Zealand should become a standard-taker in relation to climate-related disclosures. If New Zealand does not become a standard-taker in relation to climate-related disclosures, we consider that New Zealand’s climate-related disclosure standards should be aligned to the greatest extent possible with the TCFD’s recommendations and associated guidance, as these are widely considered to constitute current best practice.</p>
<p><i>Question 5:</i></p> <p>The XRB is particularly interested in feedback on the following defined terms as they are currently proposed: ‘climate-related risk’, ‘climate-related opportunities’, ‘climate-related issues’, ‘physical risk’, and ‘transition risk’.</p> <p>a) Do you consider that the XRB should align with the TCFD and use the terms ‘climate-related opportunities’ and ‘climate-related issues’, or should we only refer to ‘climate-related risks’?</p> <p>b) Do you consider that the proposed definitions for these terms are accurate, sufficiently clear and well-explained? Do they need further detail or explanation? If so, should that detail be included in the defined terms or in guidance?</p>	<p>BDO believes that consideration needs to be given to whether New Zealand should become a standard-taker in relation to climate-related disclosures. If New Zealand does not become a standard-taker in relation to climate-related disclosures, we consider that New Zealand’s climate-related disclosure standards should be aligned to the greatest extent possible with the TCFD’s recommendations and associated guidance, as these are widely considered to constitute current best practice.</p>
<p><i>Question 6:</i></p> <p>Do you have any other views on the defined terms as they are currently proposed?</p>	<p>We do not have any additional comments on defined terms.</p>
<p><i>Question 7:</i></p> <p>The XRB is currently of the view that adoption provisions for some of the specific disclosures</p>	<p>We do not consider that specific adoption provisions will be required for either the</p>

Question	BDO response
<p>in NZ CS 1 will be required. However, the XRB does not believe it is necessary to provide any adoption provisions for entities in relation to the Governance and Risk Management disclosures. Do you agree with this view? Why or why not?</p>	<p>Governance or the Risk Management disclosures.</p>
<p><i>Question 8:</i></p> <p>The XRB currently intends NZ CS 1 to be concise and sector neutral, with sector specific requirements to be contained in guidance. Do you agree with this approach?</p>	<p>We consider this approach to be appropriate, as guidance will be able to be updated more quickly than mandatory standards, which will be important in an area in which developments are occurring so rapidly. As outlined above, to avoid preparers copying sample disclosures from guidance material with little entity-specific customisation, we suggest that the guidance material does not include comprehensive examples of generic disclosures.</p>
<p><i>Question 9:</i></p> <p>Do you have any other comments?</p>	<p>As noted above, now that there is an international commitment to the development of high quality global sustainability disclosure standards through the ISSB, we suggest that consideration be given to whether it is appropriate for New Zealand to (1) continue on its current path of setting its own climate-related disclosure standards, or (2) cease the development of its own climate-related disclosure standards until it is clear whether it will be appropriate to adopt the sustainability standards to be developed by the ISSB.</p>