



Michele Embling, Chair
External Reporting Board (XRB)
Level 7, 50 Manners Street
Wellington 6142
New Zealand

22 November 2021

**Subject: PwC Submission on the Aotearoa New Zealand Climate Standard 1
Climate-related Disclosures Governance and Risk Management Consultation
Document (NZ CS 1 or the Standard)**

Dear Michele

About Us

This submission is from PricewaterhouseCoopers New Zealand (PwC NZ). We are the New Zealand member of PwC's global network of firms. PwC NZ is the largest professional services firm in New Zealand, employing over 1,650 people.

This response is filed on behalf of PwC NZ. References to "PwC" and/or "we" refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

Background

We appreciate the opportunity to comment on NZ CS 1. We are supportive of the upcoming legislation and the Standard.

In developing the views expressed in this submission, we have drawn on PwC's experience in understanding and applying accounting standards, reporting and assurance frameworks and requirements, and our experience of reporting entities who will be affected by this submission, their users and the assurance profession.

We commend the XRB on their development of this pioneering standard. How businesses respond to climate issues will play a critical role in protecting our economy and our capital markets from the impact of climate change. We agree that to achieve its intended outcomes this Standard needs to facilitate change rather than simply being a compliance exercise. These disclosures need to fully inform users of climate-related risks and opportunities so that users have appropriate information when making decisions on capital financing, lending or underwriting. We have reviewed the consultation document with this purpose in mind.

We acknowledge the efforts of the XRB on their work in this initial consultation document. The document is well laid out, articulate and material considerations have been taken into account. We understand that this initial consultation document is only part of the process to develop this new standard.

There are certain high level observations which we believe should be considered during the process of issuing this and other Climate Standards and guidance in the future.

- **Conceptual Framework:** As highlighted in section 8.2 of NZ CS 1, the New Zealand Climate-related Disclosures Concepts (NZ CRDC) will provide an authoritative notice of key concepts, such as the fundamental qualitative characteristics of reported information, including materiality, and that it will address the importance of the connection between climate-related disclosures and financial statement disclosures. In order to gain the trust and confidence of



the users of these disclosures, the NZ CRDC's characteristics of faithful representation in reporting need to address the risk of misleading reporting or 'greenwashing' of disclosures.

- **Definitions:** We support utilising the same definitions as the Task Force on Climate-related Financial Disclosures (TCFD) or NZ IFRS, where applicable, to minimise the risk of misinterpretation and encourage alignment of New Zealand reporters to those internationally. The definitions from NZ IFRS, for example on key management, remuneration, related parties and Group, affiliates and joint operations provide a more comprehensive definition based on control, influence or the ability the agents have to direct activities that affect climate related issues/entity outcomes and reporting. Through our review of the consultation document we identified certain terms we believe need to be clearly defined to remove ambiguity, and ensure consistent application and comparability of the Standard.

The terms below are examples of where definitions should be provided in the suite of Climate Standards.

- Group (Page 8, Section 4, Paragraph 5).
- Material and Materiality (discussed throughout the disclosure standard and the document), including whether 'double materiality' will be applied.
- Related Party or Related Parties (not discussed in the disclosure standard or the document, but considered as relevant).
- Management (Page 20, defined, discussion around the definition of Management vs. Key Management Personnel).
- Remuneration (Page 16, Disclosure 4. (c)).
- Oversight (Page 16, Disclosure 4. (d)).
- **Alignment with the TCFD:** We acknowledge that the XRB has aligned the Standard closely with the TCFD and we appreciate the inclusion of Annex 2 for the review of this alignment. We agree that, to ensure consistency and comparability in New Zealand and internationally, this alignment to TCFD is the appropriate approach to take. Divergence from TCFD should be limited only where it is logical to the application of reporting standards and specific outcomes we want in New Zealand.
- **Consideration of Global Standards:** The establishment of the International Sustainability Standards Board (ISSB) and the development of its climate standards presents a critical area of consideration and potential complexity in the development of the New Zealand Climate Standards. The New Zealand Climate Standards should seek alignment by those standards issued by the ISSB in the future to ensure international consistency and comparability of New Zealand disclosures.
- **Assurance Practitioners & Standards:** We recognise that any assurance practitioner carrying out climate-related disclosure assurance must comply with all applicable auditing and assurance standards issued by the XRB. We also understand that the level of assurance and a likely phased approach on where assurance is required is still being determined. Globally, voluntary and mandatory assurance on disclosures, and assurance on broader information than just greenhouse gases, is quickly growing to meet the demands users are placing on having trusted climate-related disclosures. An example is the European Union and the provisions of the Corporate Sustainability Reporting Directive. We would encourage the XRB to consider global expectations of assurance, where relevant, so that New Zealand organisations remain attractive to international investment.



- **Overall Consultation Process:** We have kept our responses to the questions raised in NZ CS 1 succinct as this consultation document is only the first stage of the feedback process. We look forward to providing further feedback on the Climate Standards in the future.

PwC Responses to XRB Questions

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| 1.) 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>The definition of primary users is consistent with the TCFD. We agree that identifying all these users as primary users achieves the purpose and intent of the climate-related disclosure regime.</p> <p>These users are different to the NZ Equivalent of the IASB conceptual framework for financial reporting, which includes other creditors, but excludes insurance underwriters. In contrast to the view on TCFD alignment, consistency between Climate Standards and financial reporting is also desirable yet secondary to TCFD alignment. The XRB should be mindful of how to address this as well as global trends and the future of integrated reporting.</p> <p>We recommend that the XRB consider how this definition of primary users might differ for reporting entities who are also public benefit entities.</p> <p>The XRB may wish to revisit the definition of primary users after materiality is defined, particularly if the concept of double materiality is introduced whereby the entity's climate related impact on society is also disclosed. Such a move would require reporting entities to consider and disclose to a broader set of stakeholders in their disclosure, becoming de-facto primary users.</p> <p>We also recommend that the draft climate standard from the ISSB is considered. This standard may include other users and any potential impacts of this should be considered prior to issuing the final standard.</p> |
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| 2.) Do you think the proposed Governance section of NZ CS 1 meets primary user needs?

a.) Do you think that the information provided under this section of NZ CS 1 will provide information that is useful for | <p>Yes, we believe that the proposed Governance section of NZ CS 1 meets primary user needs.</p> <p>a.) Yes, this information will be useful for decision making to primary users.</p> <p>b.) Yes, this section is clear and unambiguous of the information to be disclosed. We identified</p> |
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decision making to primary users (existing and potential investors, lenders and insurance underwriters)? If not, please explain why not and identify any alternative proposals.

- 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?
- 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?

certain considerations below to enhance clarity.

- NZ CS 1: 4. (c) Should just “implementation” be disclosed here? Or should it state, “implementation and ongoing monitoring”?
- NZ CS 1: 4. (c) Suggest changing “remuneration policies” to “remuneration”. Then, as stated above in the ‘Definitions’ point above, remuneration should be defined.
- NZ CS 1: 4. (c) The sentence is in two parts, so the previous comment should make explicit this is for “[management/director] remuneration” to avoid ambiguity on who the disclosure is intended to capture (or Key Management Personnel, see the ‘Definitions’ bullet point above for definition of management vs. key management personnel)?
- NZ CS 1: 4. (d) This disclosure could include in what capacity the expertise is utilised as well as who the expert is. Should the disclosure also include the processes/controls the Board took in ensuring the expert is suitably qualified and how the Board (and/or Management) assess and take responsibility for the expert’s advice?
- NZ CS 1: 4. (d) The term “oversight” should be defined (as noted in the ‘Definitions’ bullet point above). For example, does the oversight include recommendations from management, obtaining assurance from internal audit on the processes and controls for managing climate issues or getting external advice or assurance?
- NZ CS 1: 5. (a) Should the frequency of the Board reporting also be added to the disclosure?
- NZ CS 1: 5. (b) Should the role of each position and committee also be added to the disclosure?

c.) We believe that this section of the Standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity.

We agree that additional guidance, such as sector guidance, should be included in the accompanying guidance to the Standard.

3.) Do you think the proposed Risk Management section of NZ CS 1 meets primary user needs?

Yes, we believe that the proposed Risk Management section of NZ CS 1 meets primary user needs in the critical areas of how risks are identified, assessed and managed.

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.

a.) Yes, this information will be useful for decision making to primary users.

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?

b.) Yes, this section is clear and unambiguous of the information to be disclosed. We have suggestions to enhance the Standard.

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?

- NZ CS 1: 3. Where it states, “for both transition risks and physical risks”, we recommend editing this to “for both transition risks and physical risks, disclosed separately”. This ensures that there is a clear understanding that these types of risks are disclosed individually.
- NZ CS 1: 4. In the assessment of climate-related risks, the disclosure should clearly state that material risks where significant uncertainty currently exists should be disclosed along with details of these uncertainties.

c.) Yes, this section of the Standard is adequately comprehensive and achieves the right balance in terms of prescriptiveness and specificity.

We agree that additional guidance, such as sector guidance, should be included in the accompanying guidance to the Standard.

4.) 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?

Yes, in order to ensure consistency and comparability, the new standard should closely align with the TCFD’s definitions refer to our overarching comment on ‘Alignment with the TCFD’ above.

<p>5.) 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>a.) In order to ensure consistency and comparability, the XRB should align with the TCFD and use the terms 'climate-related opportunities', 'climate-related issues' and 'climate-related risks'.</p> <p>b.) We consider the proposed definitions to be accurate, sufficiently clear and well explained for the purpose of the standard.</p> <p>We agree that additional guidance, such as sector guidance, should be included in the accompanying guidance to the Standard.</p>
<p>6.) Do you have any other views on the defined terms as they are currently proposed?</p>	<p>Refer to the 'Definitions' bullet point above. We have no other views or comments on the defined terms as they are currently proposed.</p>
<p>7.) The XRB is currently of the view that adoption provisions for some of the specific disclosures 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>Yes, we agree. Governance and Risk Management disclosures should not be particularly onerous to make. Consequently, no adoption provisions are required.</p>
<p>8.) 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>Yes, we agree.</p>
<p>9.) Do you have any other comments?</p>	<p>No other comments to be provided.</p>



Yours sincerely

A handwritten signature in black ink that reads 'Jonathan Skilton'. The signature is fluid and cursive, with the first name 'Jonathan' and the last name 'Skilton' clearly legible.

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