

22 November 2021

External Reporting Board (XRB)
PO Box 11250, Manners St Central
Wellington 6142
New Zealand

Via email: climate@xrb.govt.nz

Dear Sir/Madam,

Climate-related Disclosures, Governance and Risk Management Consultation Document.

CPA Australia welcomes the opportunity to respond to *Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)* (the “Consultation Paper”).

CPA Australia represents the diverse interests of more than 168,000 members, including over 2,700 members in New Zealand, working in over a 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

We welcome the overall direction of the recommendations set out in the Consultation Paper and agree with the principles underlying the proposed Climate Standard. We note the close alignment of the proposed Climate Standard with the work put forward by the TCFD, with the two key areas of Governance and Risk Management being dealt with in the first instance. We are mindful of the key challenge presented in interpreting the TCFD framework for the New Zealand context in the proposed Standard.

Our key recommendations with respect to the Standard relate to the potential additional reporting burden on organisations and on how the proposed Standard can be incorporated into a range of reporting requirements, notably the NZX Corporate Governance Code.

We are also aware of the intention to define a comprehensive taxonomy for use in the Standard. We would recommend consistency with established taxonomies used in the TCFD framework and other jurisdictions, notably the EU taxonomy for sustainable activities. It is our opinion that close alignment with these taxonomies would aid both comparability of reporting and ease of assurance on such reporting.

Please see attached answers to the questions included in the Consultation Paper.

If you require further information, or elaboration on the views expressed in this submission, please contact Mr Patrick Viljoen, Senior Manager ESG, on patrick.viljoen@cpaaustralia.com.au.

Yours sincerely



Dr. Gary Pflugrath FCPA
Executive General Manager
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Rick Jones
Country Head New Zealand

Appendix: Detailed responses to the questions put forward by the XRB and other comments on the Consultation Paper

Section 2

Question 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?

2.1 *The users of the proposed standard are reporting entities (preparers).*

We note that no clear understanding is provided of who would be tasked with preparing disclosures under the standard. We are mindful that the ultimate responsibility for reporting would be vested with the Board / Management. However clearer guidance should be provided to provide organisations with clarity on which potential teams and functions should be involved in preparation.

2.2 *The primary users of the disclosures are existing and potential investors, lenders and insurance underwriters.*

We understand and concur with the rationale for the focus area being linked to the provision and use of capital. However, the application and usefulness to a broader stakeholder group should not be neglected.

Section 4

4.2 *Group climate statements must be prepared by entities that have one or more subsidiaries. For managers of investment schemes, climate statements must be completed in relation to each separate fund of the scheme.*

We note an inconsistency in the proposed requirements, with consolidated groups being required to prepare a single report, but fund managers being required to report per fund. For groups there is the potential for underperforming entities to be masked by group average performance.

4.3 *The Bill requires climate reporting entities to 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.*

The above requirement seems to be inconsistent with the spirit of the Bill as stated below.

“Climate-related disclosures are not intended to be a compliance exercise. Embedding consideration of climate-related issues into an entity’s strategy allows for better decision making.” (Pg. 6)

We would suggest guidance be published, as an appendix, to assist organisations to integrate climate-related considerations and reporting into existing reporting documents and provide linkages to specific reporting.

Section 5

Basing the proposed NZ CS1 standard on the work of the TCFD is a good baseline. We also note the work put forward for consultation by the ISSB on a proposed Climate-related Disclosure Prototype, that could be read in conjunction with the development of the NZ CS1 Standard.

We concur with the approach of keeping the standard succinct with additional guidance being provided to supplement the principles contemplated in the standard. We also note the XRB’s approach to providing guidance on a case-by-case basis. We would suggest that applicability may benefit from industry specific guidance, as business models and risks may be specific to industries.

Section 6

We agree that the work contemplated as part of the release of NZ CS1 would potentially impact a range of other reporting and disclosure requirements of organisations. This, however, feels at odds with the standalone nature of the reporting standard and may impact on the resources required to produce both a standalone statement, and to adequately cross reference to other applicable reports. We note that the XRB indicates that it will work with various other government departments on determining the range of reporting requirements demanded from organisations.

Section 7

The detailed guidance on content requirements for the Governance (7.2) and Risk management sections (7.3) are comprehensive.

The detailed nature of the requirements may, however, at first glance appear overwhelming to the target audience. We recommend guidance be provided on a proposed reporting structure, indicating how the various components would need to be synthesised into a cohesive narrative.

Section 7.2 – Governance

Question 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 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?

We note the potential for climate-related disclosure to be incorporated into existing reporting formats ostensibly under the NZX Corporate Governance Code, as mentioned in the Consultation Paper (7.2.1). Notably a discussion on the Board's oversight of climate related risks and opportunities (7.2 3(a)) and the processes by which management is informed about, makes decisions on, and monitors, climate-related issues (7.2 5(c)) could form part of Management Commentary.

We are aware of the current commentary being sought by the XRB on the Exposure Draft of the IASB (ED/2021/6) relating to Management Commentary. We are also aware of both the New Zealand Stock Exchange (NZX) and the Financial Markets Authority (FMA) having issued guidance around disclosure of management commentary. We recommend that the considerations for the reporting of governance should seek both inspiration from, and contribute to, the work being done on Management Commentary by the XRB.

We note that many organisations already disclose Directors and Senior management emoluments as part of their external reporting, which also contain indications of salary at risk. We recommend any potential linkage of remuneration to the achievement of dedicated climate-related KPIs to be shown as part of this disclosure, providing both balance and an overview of remuneration more broadly.

Section 7.3 – Risk management

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

- a) Do you think that the information provided under this section of the standard 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.
- 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?

We agree with the approach of identifying tools (scenario analysis, hazard maps etc.) to aid the identification of climate-related risks. We, however, note that capacity building would be required to provide preparers with sufficient skills to perform these analyses. We are also in agreement with the indication of consideration of climate-related considerations across different time-horizons.

As mentioned previously a closer link should be struck between the preceding section on Governance, as it relates to the Board and Management's oversight and management of risk, and how this naturally flows into the discussion about risk management.

Section 7.4

Question 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?

Question 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'.

- 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'?
- 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?

Question 6. Do you have any other views on the defined terms as they are currently proposed?

We agree with the alignment of the Standard's definitions with those proposed by the TCFD (Appendix A – Defined Terms). We believe that this alignment will both provide consistency and allow for easier comparability.

We are not of the opinion that the definitions of climate-related risks and climate-related opportunities should be consolidated. It is our view that the inclusion of climate-opportunities in the description of climate-risk would add ambiguity to the terminology and would divert focus away from an opportunity focused approach that could be adopted by organisations.

Preparers should identify both climate-risks and climate-opportunities, determining and disclosing a comprehensive response to both components as part of their strategy and contemplating any relevant changes to their business models.

We would strongly encourage the use of both physical and transition risk as part of the terminology. Our view is that this would be in keeping with the time horizons contemplated in the standard. Moreover, this would provide an opportunity for reporting organisations to evidence their responses to the impacts of climate-change, and to articulate their ongoing adaptation of strategies and business operations to address the transition towards sustainable operations.

Section 8

Question 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?

We believe the wording contained in this section: *"This is because we consider that providing this information is not onerous, as the disclosures ask for a description of an entity's current activities"* appears at odds with the time horizons contemplated in Section 7. Although the intent is for reporting organisations to describe their current operations, we are aware that a future lens would be required if reporting organisations focus on the medium and longer-term risks and opportunities.

As mentioned previously the level of detailed disclosure required could indeed be onerous for reporting entities, which would benefit from additional guidance as to a proposed overall structure and synthesis between the various envisaged components.

Section 9

Question 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?

We agree with the proposal of the XRB's intention for NZ CS 1 to be sector neutral with sector specific guidance being presented on a case-by-case basis. We suggest expanding the wording in Section 5.3 (extracted below) to clarify that the aim of cases being reviewed is to inter alia determine industry specific considerations.

"NZ CS 1 will be principles-based and succinct, with decisions about what is in NZ CS 1 and what is in the guidance to be made on a case-by- case basis."