Statement of Interest

CDP welcomes the opportunity to comment on XRB's discussion paper on the governance and risk management modules of NZ CS 1, and we applaud XRB for developing these draft modules. Our overall impression is that the modules contained in the consultation paper represents a bold step forward in fostering a more climate-resilient financial system for New Zealand.

We are pleased to offer the feedback below from our perspective as a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with over 590 investors with $110 trillion in assets, CDP pioneered working through capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 10,000 organisations around the world disclosed data through CDP in 2021, including more than 9,600 companies worth over 50% of global market capitalisation, and over 940 cities, states and regions, representing a combined population of over 2.6 billion.

Fully TCFD aligned, CDP maintains the largest corporate environmental database in the world. CDP scores are used to drive investment and procurement decisions towards a zero-carbon, and resilient economy. CDP data powers the global ESG ecosystem and is incorporated into platforms and outlets like Bloomberg, MSCI, DJSI, and Euronext, among others. CDP is also a founding member of the Science Based Targets initiative, the We Mean Business Coalition, the Investor Agenda and the Net Zero Asset Managers initiative.

We offer the comments below in order to ensure that NZ CS 1 will position regulated entities to provide the capital market with comparable, decision-useful data. To that end, we have indicated the frameworks, standards, and other reference points which our stakeholders have found most useful in enabling issuers to meet global best practices. Additional recommendations for policymakers and regulators to incentivize corporate climate action are captured in the recent briefs The Time for Action is Now and Shaping High Quality Mandatory Disclosure.

Please find CDP's full response below. We have focused on the sections of the guidance where we felt that our expertise would be most useful to your team. Please feel free to get in touch should you wish to follow up on any of our comments – we would be happy to discuss how XRB could best leverage CDP's platform, resources, database and experience in environmental reporting. We look forward to further engaging with XRB.

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?

We agree with the understanding of who will be the primary users of disclosures issued according to the standard. However, as the discussion paper notes, climate-related disclosures are of growing interest to a range of other stakeholders, including governments; regulators; academics; employees; customers; and value chain partners, among others. An increasing number of companies and government entities are incorporating climate data into their procurement processes. New Zealand businesses with places in global supply chains would benefit from a standard meant to address the needs of these stakeholders[1].

We would therefore ask XRB to consider developing the standard such that it encourages disclosures to be comprehensible to as wide an audience as possible. One way to do this would be to use non-technical language where this does not undermine the precision of the standard. For example, page 21 raises the possibility of dropping references to “climate opportunities” because “investment and finance literature” typically defines risk as variance from expected outcomes, whether positive or negative, and that the term *climate risk* therefore encompasses what are commonly referred to as risks and opportunities. While this departure from TCFD terminology may not result in loss of nuance from the narrow perspective of primary users as defined in the discussion paper, this would create confusion among stakeholders not as well versed in the language of investment and finance. For primary users, the term “climate opportunities” also provides a focus on emerging financial opportunities that will manifest from implementation of transition pathways. This term therefore ensures that opportunities are not merely assessed from the lens of risk-adjusted returns. **2. Do you think the proposed Governance section of NZ CS 1 meets primary user needs?**

Yes. Within the context of the responses below, CDP considers that that this section meets the needs of primary users. On the whole, believe that NZ CS 1 succeeds in aligning closely with the relevant provisions of the TCFD. However, CDP’s position is that the recommendations of the TCFD form a starting point for climate disclosure, and that a robust mandatory disclosure regime should incorporate best practices that go beyond the TCFD. We have used our responses to the sub-questions below to indicate where there is room for XRB to expand NZ CS 1 to incorporate best practices.

On the topic of materiality, appeared in Table 1 and raised in section 10.5, we support XRB’s position that all the information elicited in the draft modules should be considered material. It is encouraging to see that XRB expects an entity to disclose what processes are in place, and to otherwise state whether such processes are absent. However, XRB could develop this further by adopting a comply-or-explain requirement where such processes are absent. CDP would advise XRB to encourage companies to explain what steps they are taking to implement such processes.

Whilst CDP recognizes that XRB are currently developing a definition of “material” and related requirements for the application of materiality to climate-related disclosures, we would suggest highlighting the significance of an entity’s environmental impacts too. CDP would ask XRB to consider extending its guidelines on materiality to adopt the “double materiality” approach and require climate-reporting entities to consider their impact on the environment. Whilst single materiality refers to purely financial and risk-based data on the company, double materiality addresses the impact of companies on people and the planet. Adopting the double materiality approach would maximize the relevance of issuers’ sustainability reports to a wide range of stakeholders and ensure that issuers remain aligned with global best practices.

Double materiality is of particular relevance for primary users, given the potential for the behavior of a climate-reporting entity to have environmental impacts that rebound on the

---

[1] A number of recently proposed or developed policies require companies to disclose on their value chain and/or supply chain impacts. For example, the Stock Exchange of Singapore has proposed revising its listing requirements to consider supply chain impacts material for the purposes of disclosure. Similarly, the German Supply Chain Act and the United Kingdom’s Environment Bill (both 2021) require due diligence and reporting on supply chains.

entity itself. These impacts can be in the shape of negative externalities and can catalyse both physical and transition risks, all of which can be considered material by reporting companies. Subsequently, CDP would ask XRB to highlight the significance of this within its standard. Double materiality has been incorporated into the European Union's existing Non-Financial Reporting Directive and the proposed Corporate Sustainability Reporting Directive. The approach has further been adopted in Switzerland, alongside being embedded within leading disclosure frameworks such as CDP and GRI.

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.

Overall, CDP believes that the information provided under this section will be useful to primary users in their decision-making processes. The information called for in this section aligns both with the recommendations of the TCFD and with the data requested in the governance section of CDP's climate change questionnaire.

We would ask XRB to consider adding a few elements. First, recent TCFD guidance on metrics, targets, and transition plans emphasizes the importance of transition planning for entities impacted by the effects of climate change[2]. While the next discussion document on the strategy and metrics and targets modules of NZ CS 1 is likely to cover transition planning, our position is that transition planning requires effective governance structures, and governance functions vis a vis transition planning should be explicitly requested. The TCFD guidance indicates several governance functions specifically tied to transition planning[3]:

- Approval
- Oversight
- Accountability
- Incentives
- Transparency

There is growing recognition of the need for every company to publish a Climate Transition Action Plan behind net-zero and Science-Based Target commitments, as evidenced by the UK's Green Financing Roadmap[4] and the recent announced all that British financial services companies will be required to develop a net-zero plan by 2023[5]. CDP is working to ensure that companies are disclosing the relevant climate transition plan metrics and that the appropriate data is made available to stakeholders. Transition plans and reporting on forward-looking indicators and metrics will increase investor confidence in companies' progressive climate-related planning and their ability to stay relevant (i.e., profitable) in a net-zero carbon world.

CDP has adopted six guiding principles for any given transition plan. These principles and features include accountability; flexible and inclusive; forward-looking; time-bound and quantitative; internally coherent; and responsive[6]. We believe that these principles are broad enough to generally apply to virtually all entities covered by NZ CS 1, although there will certainly be differences in any climate transition plan journey both within and across sectors.

[2] TCFD (2021): Guidance on Metrics, Targets, and Transition Plans.
[3] Ibid. See chart on page 42.
[4] HM Government (2021): Greening Finance: A Roadmap to Sustainable Investing. See page 16 for a discussion of transition planning.
[5] Reuters (2021): Britain to set out how finance can help meet net-zero goals.
[6] CDP (2021): Climate Transition Plans.

CDP's climate change questionnaire will continue to expand the tracking and reporting of data (breadth and granularity) on the majority of the climate transition plan elements identified. This will help to account for increased reporting accuracy and sector-specific nuance. Through outlining how a company will transition from where it is now, to where it needs to get to, companies can demonstrate how they will lead the way and thrive in a net-zero carbon world[7].

CDP is happy to provide additional thoughts on how NZ CS 1 can capture relevant data on transition planning in XRB's subsequent consultation on strategy.

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?

We consider this section to be clear and unambiguous.

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?

CDP finds this section sufficiently comprehensive, and we believe that it strikes the right balance between prescriptiveness and specificity. We would, however, propose that XRB sharpen item 4(c) to ask entities whether board members have received training on climate related issues. Our position is that a baseline of climate awareness is a prerequisite for the board to discharge its duties with respect to climate change, and primary users have a material interest to understand the board's degree of familiarity with climate issues.

We agree with XRB's decision to require disclosure concerning the linkages between management of climate-related issues and the performance-based component of executive remuneration packages. CDP's climate change questionnaire includes a question about climate-related incentives, and we find that this disclosure enhances both transparency and accountability with respect to effective climate governance and the prioritization of climate issues. We would urge XRB to keep this provision in the final version of NZ CS 1.

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

Yes. Within the context of our responses to the sub-questions below and our comments in response to Question 2 above, CDP believes that this section meets the needs of primary users.

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.

We agree that the information elicited in this section will provide useful information to primary users. However, we would ask XRB to consider widening its focused to consider impacts as well as risks and opportunities. As noted in our response to Question 2, CDP's position is that entities' impacts on climate should be considered material. This perspective is embedded in the UK's disclosure requirements. CDP feels that primary users of disclosures prepared by entities disclosing against NZ CS 1 should provide a similar assessment. While impacts are not specified in the TCFD, impact reporting is becoming increasingly vital.

---

[7] A list of the transition-related questions that are proposed to appear on CDP's 2022 questionnaire is available in the corresponding [consultation document](#).

Similar to how the proposed standards includes terms like ‘climate-related issues’ that to do not appear in the TCFD but are nonetheless relevant to primary users, the standard should include requirements on climate-related impacts.

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?

We consider this section to be clear and unambiguous.

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?

Generally, we find this section adequately comprehensive. However, we believe the 17 risks enumerated in TCFD Table A1 should be retained in NZ CS 1 or in the accompanying guidance. This breakdown of risks allows entities to report which a degree of granularity that is not captured by the simple dichotomy of physical and transition risks. The breakdown of risks into 17 categories is a conceptual tool that allows both entities and primary users to better assess and contextualize an entity’s risk profile. Simply identifying risks as physical or transition risk would elide relevant information and diminish the comparability of reported data. It would also undermine the degree of alignment between CS NZ 1 and mainstream disclosure frameworks and mechanisms like the TCFD and CDP.

Entities that do not consider the risk types catalogued in TCFD Table A1 to be material or relevant should state so and provide an explanation. Reproducing the table in guidance would not turn risk reporting into a “checklist” exercise, but it would require entities to think through their risk profile across various dimensions that may not otherwise be apparent. While the concern with checklist compliance is legitimate, the provision in Paragraph 2 of Table 4 requiring entities to any additional, relevant information would guard against entities simply omitting risks that may not be enumerated on TCFD Table A1. Suitable language can be added to this section or in the guidance that the table of 17 risks is not meant to be exhaustive and that entities should report in risks not captured in the table.

On the question of ocean acidification, it is unclear why this would not fall into the category of chronic physical risk and the impact of long-term changing climate patterns on economic outputs. While the TCFD does not specifically identify ocean acidification as such, the process of ocean acidification occurs as a consequence of and in tandem with “long-term shifts” in the climate, and the Basel Committee on Banking Supervision explicitly identifies ocean acidification as a chronic risk[8]. While not all physical risks may fall discretely into one category or the other, the segregation of risks into chronic and acute risks is nonetheless of value to primary users as it allows them to assess and compare risks of different natures and timescales.

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?

We agree with the use of these terms and with XRB’s decision to align its terminology with the language used by the TCFD and CDP, as well as other reporting frameworks and resources aligned with the TCFD.

[8] BCBS (2021): Climate related risk drivers and their transmission channels. See definition of “chronic risk” on page iii and discussion on page 7.

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'?

We believe that XRB should retain terms like 'climate-related opportunities' and 'climate-related issues' in addition to the term 'climate-related risk'. This standardization of terminology in turn facilitates standardization of reporting. These terms are valuable in that they align closely with language used in the TCFD and with other, TCFD-aligned reporting regimes being developed in other jurisdictions. The terms are also used by CDP and feed into the various outlets and products driven by CDP data. Retaining these terms helps ensure that reporting against CS NZ 1 will yield comparable, decision-useful data.

As noted in our response to Question 1, we consider it vital to make the entities' environmental disclosure comprehensible and accessible to as wide an audience as possible. As such, we support the use of ordinary, direct language instead of highly technical language where appropriate.

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?

We find the proposed definitions accurate, clear, and well explained. The proposed definitions align with both the language used in the TCFD questionnaire and CDP's use of these terms.

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

No.

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 agree that the no adoption provisions are required for the governance and risk management modules of the new standard; as the discussion paper notes, these sections require entities to report relevant activities and processes currently in place, and all entities should be equipped to do this.

More broadly, we would ask XRB to minimize any adoption provisions and require entities to make complete disclosures once the standard is put into effect. As the IPCC's Sixth Assessment Report indicates, the window for a 1.5° pathway is rapidly closing, and the urgency of the situation requires all impacted entities to begin submitting fulsome disclosures as soon as possible[9]. Per the timeline on page 8, entities will not be required to prepare their first climate statement until 2024, over a year and a half from the released of the final standard. CDP believes that this provides sufficient time for companies to prepare for their first disclosures.

[9] IPCC (2021): Sixth Assessment Report.

Our experience in New Zealand suggests that many companies are well equipped to fulfil the requirements of the standard without need for adoption provisions. In 2021, 38% of NZX50 issuers responded to CDP's TCFD-aligned climate change questionnaires. This suggests that a large share of entities covered by the disclosure requirements are already equipped to provide a fulsome disclosure under the NZ CS. Even entities with little or no experience with TCFD reporting have access to sufficient resources and capacity building opportunities to prepare for the upcoming standard.

CDP has a range of resources publicly available to regulated entities, including a library of capacity building programming on everything from measuring GHG emissions to conducting scenario analysis to reporting climate-related risks and opportunities. Our disclosure platform and scoring system also function as tools to help responding entities assess their TCFD readiness and to develop a roadmap for more robust environmental management and disclosure. We would be happy to work with XRB to make our resources available to New Zealand entities. We would also be pleased to discuss with XRB how our reporting platform could be used to assess the performance of disclosing entities and to support the policy implementation process.

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 this approach. Given the time and resources to amend the standard, it appears sensible to instead develop guidance that can be modified more rapidly as best practices in environmental management and reporting emerge. We agree that this could potentially make the standard more nimble and better able to address the changing need of primary users.

Still, any guidance issued must be unequivocal that reporting entities are expected to follow best practices in climate disclosure. While it is true that guidance documents generally are not to 'be taken as the only "correct" way' to report, guidance must be sufficiently precise, clear, and (to some degree) prescriptive to yield comparable data across entities and sectors. In other words, if guidance is to be contained in non-binding materials, it should be provided with the clear expectation that regulated entities will carry out the best practices identified. XRB may consider using the guidance to indicate that entities that are not able to carry out best practices should be prepared to explain why this is and why the entities has elected to report using other frameworks or mechanisms.

The TCFD recommendations were initially developed as a voluntary disclosure framework, and within this context it was fitting that the recommendations should be somewhat open-ended and principles-based. However, in the transition from a voluntary framework to a mandatory reporting standard, accompanying guidance should be made more prescriptive and designed to elicit consistent, comparable data points relevant throughout sectors and entities. A key driver in recent commitments to mandatory, TCFD-aligned disclosure is the urgent need to increase the consistency and quality of reported data. We would therefore ask XRB to consider providing detailed, binding guidance designed to clearly signal XRB's expectations for best practices in climate disclosure.

9. Do you have any other comments?

We are grateful for the opportunity to comment on the issues considered in Section 10 and which will influence the development of NZ CS 1. We can provide additional, more detailed feedback during the consultation for the standard's strategy and metrics and targets modules.

With respect to **scenarios**, CDP's position is that scenario analysis is a critical, forward-looking tool. Given the importance of scenario analysis in allowing primary users to anticipate an entity's performance across different scenarios, we believe it is appropriate for XRB to set clear expectations on the types of scenarios that are to be used and the nature and scope of the scenario analysis conducted.

With respect to the type of scenario analysis prescribed, XRB could follow the Australian Prudential Regulation Authority's approach in its drafted prudential practice guide on climate risk and encourage companies that are new to scenario analysis to begin by conducting qualitative analysis and build capacity for quantitative analysis over time[10], without letting the perfect be the enemy of the good. CDP data indicates that only 57% of financial institutions report using scenario analysis[11]. Among companies not currently conducting scenario analysis, the majority indicate that they intend to do so within the next two years; clear guidance from XRB could help lagging institutions to expedite this process.

Furthermore, we note that the first paragraph of section 10.1 refers to scenario analysis conducted with reference to 2° scenarios. In fact, the Paris Agreement has established a maximum temperature increase of 1.5° as a long-term goal. We would there suggest revising this section to underline that entities should use 1.5° scenarios in their analysis and use this analysis to inform their transition plans.

Concerning the guidance on scenario analysis that XRB intends to develop, CDP considers it best practice to select at least two scenarios for analysis, one physical scenario and one transition scenario[12]. We suggest that entities new to scenario analysis select publicly available, peer-reviewed scenarios and use these as a starting point for developing their own organizational and business-specific scenarios. Suitable scenarios should be:

- Peer reviewed
- Used/referenced and issued by an independent body
- Supported by publicly available data sets, where possible
- Updated regularly
- Linked to function tools (e.g. visualizers, calculators, and mapping tools)

A partial list of scenarios meeting these criteria can be found the CDP's Technical Note on Scenario Analysis*.* XRB is welcome to refer entities to this document.

To increase transparency, in cases where entities elect to use bespoke models for scenario analysis, they should be required to disclose input assumptions, comparisons, and any divergence from the standard set of assumptions.

Concerning **Scope 3 emissions**, we echo the position of the TCFD that Scope emissions are an "important indicator of risk"[13] and that stakeholders increasingly expect entities from all sectors to report Scope 3 emissions. Our experience working with thousands of corporations globally is that Scope 3 emissions reporting is achievable for entities in all sectors, and that a comprehensive understanding of an entity's climate performance requires an understanding of its Scope 3 emissions.

Analysis performed using data from CDP's supply chain program indicates that a given company's Scope 3 emissions average some 11.5 time higher than its direct accountable

[10] APRA (2021): Draft CPG 229 Climate Change Financial Risks.
[11] CDP (2020): The Time to Green Finance.
[12] CDP (2021): CDP Technical Note on Scenario Analysis.
[13] TCFD (2021): Guidance on Metrics, Targets, and Transition Plans.

emission[14]s. Among financial institutions, Scope 3 emissions account for an even higher share of overall emissions, with portfolio emissions on average over 700 times higher than direct emissions[15]. This indicates that a significant portion of an entity's risks, opportunities, and impacts are embedded within its Scope 3 emissions. As such, a full accounting of Scope 3 emissions is critical to achieving the standard's mission to make relevant climate data available to stakeholders.

As we indicated in our response to Question 7, we believe that regulated entities have sufficient time to develop capacity in Scope 3 accounting and reporting. The GHG Protocol, the gold-standard in emissions accounting, has developed a sophisticated methodology for measuring and reporting Scope 3 emissions, along with extensive, sector-specific guidance. Given both the maturity of emissions reporting and the outsized role that Scope 3 emissions play in the overall emissions profile of most regulated entities, we would ask XRB to avoid or limit adoption provisions with respect to Scope 3 emissions reporting.

Scope 3 emissions are also an important component of the targeting methodology developed by the Science-based Target Initiative (SBTi). The SBTi framework is considered the leading methodology for setting and tracking progress toward Paris-aligned corporate climate targets. SBTi target validation requires companies to review and, in most cases, lower their Scope 3 emissions. A strong Scope 3 reporting requirement with minimal exclusions would both position individual firms to align their business with New Zealand's net zero target and ensure the long-term stability of the national capital market.

With regards to **assurance,** CDP would strongly suggest that external assurance is required from issuers where possible. Although many environmental issues lack a robust external verification and assurance infrastructure, applicable schemes should be used where available. Assurance regarding sustainability should be viewed with equal importance as any other material reporting. Additionally, CDP would ask XRB to consider asking climate-reporting entities to use internationally recognised standards when undertaking verification. Such standards include ISO, ISAE, SSAE and AccountAbility. We strongly recommend XRB to require or to at least guide climate-reporting entities to adopt these standards when reporting on greenhouse gas emissions and related topics.

CDP's climate change questionnaire enables companies to report assurance of GHG emissions and to attach relevant statements from third-party auditors for stakeholders' review. The associated guidance provides a list of assurance standards recognized by CDP, and CDP's scoring methodology is designed to incentivize comprehensive, third-party assurance. CDP would be pleased for XRB to refer issuers to CDP's disclosure system to report external assurance.

CDP's position is that an entity's climate statements should be **presented** within its mainstream financial report. As XRB notes, this could take the shape of a discrete section of the report containing all relevant climate disclosures or it could mean that the required climate statements are integrated throughout the report. In the latter case, we would agree with XRB's proposal that entities should prepare a table that would map out the entity's required climate disclosures within the report. This would both facilitate the integration of climate-related data into the entity's overall considerations and allow users to quickly locate identify relevant climate data.

[14] CDP (2021): Supply Chain Report 2020.
[15] CDP (2021): The Time to Green Finance.

While we certainly encourage entities to share their climate statements online, we believe that is not a substitute for incorporating climate data into their mainstream filings, and that merely providing a link to climate statements would separate climate data from mainstream financial information and would undermine accessibility of climate statements. We would therefore ask XRB to discourage this practice.

In addition to reporting the required data in mainstream financial filings, we would encourage regulated entities to complete CDP's climate change questionnaire. The questionnaire is fully aligned with the recommendations of the TCFD, and data submitted through CDP is made available to capital market actors and other stakeholders worldwide. We would be happy to discuss how our platform could function as a repository for data produced by the new standard.