Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Aotearoa New Zealand Climate Standard 1

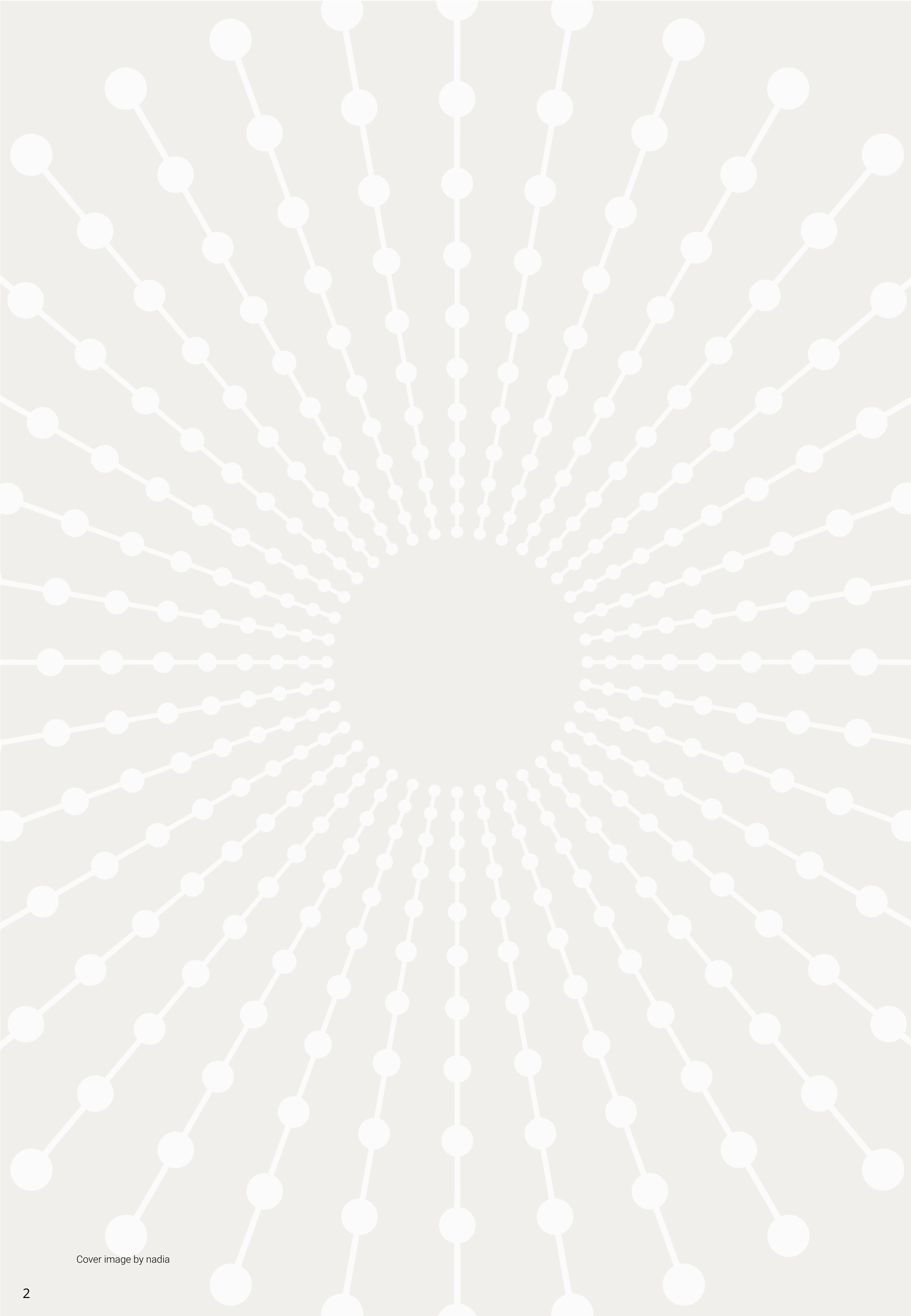
Climate-related Disclosures

Strategy, and Metrics and Targets Consultation Document

NZ CS 1

March 2022

Submissions due **13 April 2022**



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Message from the Chair and Chief Executive

In October last year, we consulted on the Governance and Risk Management sections of the proposed standard, *Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures* (NZ CS 1). We are hugely grateful for the consideration that went into the submissions received. We are equally appreciative of the positive response to our consultation process and work on this pioneering standard.

Much has happened since that document was issued. The granting of Royal Assent to the *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021* (the Act) is a significant milestone. It gives the External Reporting Board (XRB) not only a mandate to issue a climate-related disclosure framework for Aotearoa New Zealand, but also to issue non-binding guidance that relates to non-financial reporting. The XRB is continuing to prioritise the development of climate standards to fulfil the intentions of the Act and is working on a parallel track to develop its overarching environmental, social and governance (ESG) reporting framework. We intend to publish more on that front in 2022 and 2023.

Another key development is the establishment of the International Sustainability Standards Board (ISSB). We welcome the announcement of the ISSB and look forward to engaging in its processes to develop a set of internationally consistent, high-quality and reliable baseline standards for disclosure of sustainability-related information.

The International Financial Reporting Standards (IFRS) Foundation's Technical Readiness Working Group (TRWG) has published a prototype climate-related disclosure standard to give the ISSB a running start in its work. There is significant overlap between this prototype standard and the recommendations and guidance of the Task Force on Climate-related Financial Disclosures (TCFD), as well as some key differences. We look forward to the ISSB putting out its draft climate standard for exposure and agree with feedback received during our last consultation that aligning our climate-related disclosure framework with globally consistent standards is important. We will continue to observe, and endeavour to be an active contributor to, the ISSB's processes. We will also consider how best to achieve alignment between our framework and the ISSB standards in a way that is in the best interests of Aotearoa New Zealand.

The document you are reading today focuses on the Strategy, and Metrics and Targets, disclosures of NZ CS 1. These are challenging but critical topics. They are likely to require new processes to be embedded within reporting entities, including understanding current risks, opportunities and financial implications, but also imagining how different futures may influence the creation and maintenance of enterprise value. However, we are clear that reporting entities are embarking on a journey — no-one is expecting perfection on day one. The disclosures are intended to be ambitious and forward looking, and to provide a clear and consistent path for reporting entities to follow as they mature and improve their reporting over time.

We welcome your feedback.

Michele Embling

Chair

April Mackenzie

Chief Executive

PART ONE: CONTEXT

1.

What is this consultation document about?

This consultation document provides draft sections on Strategy, and Metrics and Targets, as part of the proposed standard, *Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures* (NZ CS 1). The External Reporting Board (XRB) is seeking feedback on these sections of the proposed standard to inform the standard's development.[1] This document also provides proposals on other requirements, such as assurance and materiality.

The XRB still intends to issue NZ CS 1, and any other supporting standards, in December 2022. The *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021* (the Act) gives the XRB a mandate to issue climate standards and authoritative notices (together known as the 'climate-related disclosure framework').

Part One of this document begins by explaining the process for providing feedback, then provides a brief background on what disclosures aim to achieve, who uses climate-related disclosures, and who is required to report and when. It gives an update on the domestic and international context, as well as on the climate-related disclosure framework itself.

Part Two provides the proposed Strategy disclosures, including the proposed defined terms, first-time adoption provisions, and guidance. It also explains the key decisions we have made.

Part Three follows the same order but focuses on the proposed Metrics and Targets disclosures.

Part Four of this document discusses assurance.

Part Five explains our proposed new general requirements standard and includes a proposed materiality definition.

The document concludes with a summary of questions and supporting material in the annex. We have also published an accompanying document that compares the proposed Strategy, and Metrics and Targets sections against two key international reference points.

1 Governance, Risk Management, Strategy, and Metrics and Targets are the four thematic areas of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). See Section 5.2 and the XRB's 2021 consultation document on Governance and Risk Management for more detail on the TCFD.

2.

How can you contribute?

As part of the due process for developing standards, we have a statutory obligation to consult with stakeholders before issuing a standard. We are consulting early and widely in recognition of being among the first in the world to create a mandatory climate-related disclosure regime.

In October 2021, we consulted on the proposed Governance and Risk Management sections of NZ CS 1. A Governance and Risk Management consultation feedback document was published in February 2022. Now we are asking for submissions on the other two main sections of NZ CS 1: Strategy, and Metrics and Targets. We are also consulting on the level of assurance for greenhouse gas (GHG) emissions disclosures (Part 4). The feedback received will inform the full exposure draft that is intended to be issued in July 2022.

The XRB Board will issue NZ CS 1 and any other climate-related disclosure standards. We have established two groups to support the development of NZ CS 1: an XRB Project Steering Group[2] and an External Advisory Panel (EAP) to provide advice on technical matters.[3] We have also held many discussions, workshops and sessions with preparers, experts and advisors on topics ranging from sector-level scenario construction to GHG emissions.

Submissions on this discussion document can be provided via any of the avenues below.

›› Commenting on our website: https://www.xrb.govt.nz/standards/climate-related-disclosures/strategy-and-metrics-and-targets-consultation-document/

›› Asking questions and providing comments at any of our consultation events: see https://xrb.govt.nz/events/ for a list of relevant events.

›› Commenting on our LinkedIn posts: https://www.linkedin.com/company/external-reporting-board/

›› Emailing us: climate@xrb.govt.nz

›› Sending a letter to: External Reporting Board, PO Box 11250, Manners St Central, Wellington 6142.

Figure 1: Consultation timeline

October 2021

Governance and Risk Management

This initial draft was released for a 4-week consultation period.

16 March 2022

Strategy, and Metrics and Targets

Level of assurance, Materiality

This initial draft is being released for a 4-week consultation period, closing 13 April 2022.

July 2022

Formal Exposure Draft

This formal exposure draft will comprise the entire climate-related disclosure framework.

2 The Project Steering Group comprises Jacqueline Robertson-Cheyne (Chair of the Project Steering Group and member of the XRB Board), Michele Embling (Chair of the XRB Board), Jane Taylor (Deputy Chair of the XRB Board) and April Mackenzie (Chief Executive of the XRB).

3 The External Advisory Panel comprises Annabell Chartres (PWC), Alison Howard (Wellington City Council), Adrian McDonald (University of Canterbury), Darren Beatty (Te Rūnanga o Ngāi Tahu Group), Karl Hickey (ANZ Bank Ltd), Belinda Storey (Climate Sigma), Dale Scott (Onepointfive Ltd) and Jonathan Keate (Office of the Auditor-General).

The closing date for submissions is **13 April 2022**. We appreciate detailed comments, whether supportive or critical, as both supportive and critical comments are essential to a balanced view. We will consider all comments received.

This consultation document contains several questions (provided throughout the document and listed together in Section 10). Responses to these questions are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Please comment on any or all of the questions, any parts of the proposed standard, or any other issues that are relevant to you. We will put all written submissions on our website unless advised otherwise, and we reserve the right not to publish defamatory submissions.

3.

About mandatory climate-related disclosures

3.1. What do mandatory climate-related disclosures aim to achieve?

Climate-related disclosures are a mechanism to increase transparency about the risks and opportunities arising from climate change. Disclosure helps:

- to ensure that the effects of climate change are routinely considered in business and investment decisions;
- reporting entities better demonstrate responsibility and foresight in their consideration of climate-related risks and opportunities; and
- to lead to a more informed market, a more efficient allocation of capital, and to smooth the transition to a more sustainable, low-emissions economy.

Making climate-related disclosures mandatory and publicly available is an important step in improving disclosure quality, as it provides for comparable and consistent information. It also enables reporting entities to benchmark themselves against their peers.

Climate-related disclosures are not a compliance exercise. Embedding consideration of climate-related risks and opportunities into an entity's strategy and encourages more informed capital allocation decisions.

3.2. Who uses climate-related disclosures?

Disclosures have primary users and other users. Primary users are those to whom the disclosed information is targeted, to directly inform their decision making. Other users are wider stakeholders who will likely also have an interest in the disclosed information.

In October 2021, the XRB proposed that the primary users of climate-related disclosures are existing and potential investors, lenders and insurance underwriters. This aligned largely with the Task Force on Climate-related Financial Disclosure's (TCFD) primary user definition. However, based on feedback received and further work undertaken, we propose an updated primary user definition: *existing and potential investors, lenders and other creditors.* Please see the Governance and Risk Management feedback document for the rationale for this change. This will be the definition of primary users included in the exposure draft that will be published for further comment in July 2022.

3.3. Who is required to report and by when?

The Act makes it mandatory for certain reporting entities, referred to as climate reporting entities (CREs), to prepare climate statements in accordance with the climate-related disclosure framework issued by the XRB.

CREs are FMC reporting entities[4] that are considered to have a higher level of public accountability than other FMC reporting entities. These are specified as:

- listed issuers (with either equity securities, whether quoted or unquoted, which have a total value of more than $60 million, or quoted debt securities with a total face value of more than $60 million);
- banks, credit unions and building societies (with total assets of more than $1 billion);
- licensed insurers (with total assets of more than $1 billion or annual gross premium revenue of more than $250 million); and

4 As defined in the Financial Markets Conduct Act 2013.

›› managers of registered investment schemes (with total assets of more than $1 billion for all schemes managed).[5]

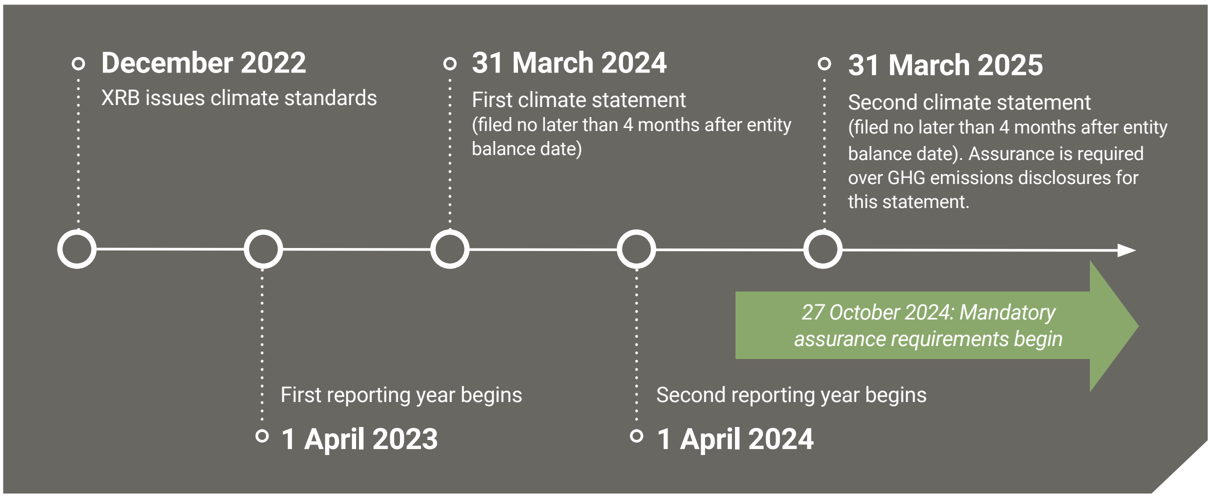
The Crown may also nominate that Crown Financial Institutions must report in line with the climate reporting framework through a letter of expectation from their relevant Minister, effectively making them CREs as well.[6]

CREs will be required to produce climate statements in respect of accounting periods that commence on or after the date on which the XRB issues the first climate standard that applies to the entity. Group climate statements must be prepared by entities that have one or more subsidiaries. For managers of registered investment schemes, climate statements must be completed in relation to each separate fund of the scheme.[7]

Currently we expect to issue a standard by December 2022. This means that CREs will be required to disclose according to the standard for accounting periods that start on or after 1 January 2023. For example, a CRE with a 31 March balance date (reporting period 1 April to 31 March) would be required to prepare their first climate statement as part of their 31 March 2024 reporting (Figure 1). The timeline also shows that assurance requirements begin from 27 October 2024.[8] This means that CREs will be required to get GHG emissions disclosures assured for any accounting period (including open accounting periods) that ends on or after 27 October 2024.

The Act requires CREs to include, in their annual reports, a statement that the entity is a CRE, 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. Climate statements or group climate statements (and any assurance practitioner's report on those statements) must be lodged with the Registrar of Financial Service Providers within four months of the balance date of that entity.

Figure 2: Example timeline for an entity with a 31 March balance date



5 See Part 7A of the Financial Markets Conduct Act 2013 for more specific definitions of CREs.

6 Large Crown Financial Institutions (CFIs) are currently required to report in accordance with the TCFD recommendations. It is anticipated that once the XRB issues NZ CS 1, CFIs will be expected to report in accordance with the climate-related disclosure framework as issued by the XRB.

7 See Section 461ZC of the Financial Markets Conduct Act 2013.

8 Noting that this timeframe is set by legislation, and is three years after the granting of Royal Assent to the Act.

4. An update on the domestic and international context

4.1. Domestic

In the October consultation document, we noted that many of the designated CREs under this regime are also required to disclose related information to other parties. This section provides an update on recent developments regarding some of these requirements. The XRB is working with all relevant parties to achieve alignment between these requirements and the climate-related disclosure framework as far as is necessary, desirable and practicable.

The New Zealand Stock Exchange (NZX) recommends that listed issuers make non-financial disclosures at least annually, including considering environmental, economic and social sustainability factors and practices, as part of its Corporate Governance Code. An initial round of consultation on the NZX's Corporate Governance Code closed in January 2022. A second round of consultation is expected to occur later in 2022. As part of this consultation, the NZX is consulting on whether their ESG Guidance Note (that accompanies the Governance Code), or the Governance Code itself, should be updated to reflect the climate-related disclosure framework issued by the XRB.

- In October 2021, the Reserve Bank of New Zealand (RBNZ) issued a report setting out its approach to climate change, including its progress and future direction. The RBNZ noted in the report the important role disclosure plays within its regulatory approach, and that it is committed to working with its regulated entities to achieve climate-related disclosure that meets the objectives of the XRB's standards. The report also said that the RBNZ is developing guidance for regulated entities on best practice management of climate-related risks, which will encourage firms to achieve good outcomes in the areas they will need to disclose. The RBNZ indicated in the report that, over the next 18 months, it is planning to build up its work regarding stress testing to a full climate change scenario-based stress test for prudentially regulated entities.
- Section 5ZW of the Climate Change Response Act 2002 allows the Minister for Climate Change or the Climate Change Commission to request information from organisations with policy and service delivery functions on their preparations for the impacts of climate change. An information request was last made in September 2020. The XRB understands that the Ministry for the Environment, upon direction from the Minister for Climate Change, intends to send information requests approximately every five years to inform the development of National Adaptation Plans.
- The Carbon Neutral Government Programme (CNGP), which requires over a hundred public sector organisations to measure, verify and report their GHG emissions annually as part of their journey to reduce their emissions consistent with a 1.5°C reduction pathway. CNGP participant organisations are required to set gross emission targets and reduction plans and offset remaining gross emissions from 2025 to achieve carbon neutrality.

4.2. International

In October 2021, the TCFD issued two important documents that are relevant to this consultation:

- new guidance on Metrics, Targets and Transition Plans; and
- a new 2021 Annex which updates and supersedes the 2017 version of *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.* It provides general and sector-specific guidance. Updates were made to reflect the evolution of disclosure practices, approaches, and user needs.

At COP26 in November 2021, the IFRS Foundation Trustees announced three significant international developments:

›› the formation of a new ISSB to develop — in the public interest — a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs;

›› a commitment by leading investor-focused sustainability disclosure organisations to consolidate into the new board. The IFRS Foundation will complete consolidation of the Climate Disclosure Standards Board and the Value Reporting Foundation (which houses the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards) by June 2022; and

›› the publication of prototype climate and general disclosure requirements developed by the IFRS Foundation's Technical Readiness Working Group (TRWG).

The ISSB's work is now underway following the appointment of its chair, Emmanuel Faber. The ISSB will consider the prototypes developed by the TRWG as part of its initial work programme, but any proposed standards will be subject to the independent due process of the ISSB. The XRB is staying closely connected to the work of the ISSB. We understand that the ISSB is intending to publish a draft climate standard for consultation in the first half of 2022. We anticipate that this will be largely similar to the TRWG prototype, and so we have compared our proposed disclosures with the TRWG prototype in an accompanying comparison document. In line with our design principles, we have endeavoured to make our disclosures more principles-based, and in alignment with the TCFD (noting also the large body of guidance material supporting the TCFD). See also Sections 6.5 and 7.6 for more detail on the key decisions supporting our disclosures.

As noted in the October 2021 consultation document, many other disclosure standards are also in development. For example, the European Commission is making substantial progress in developing draft European sustainability reporting standards. In relation to transition plans, the United Kingdom Government announced that it expects firms to 'start publishing transition plans in 2023'. Closer to home in November 2021, the Australian Accounting Standards Board (AASB) along with the Australian Auditing and Assurance Board issued a draft position statement on Extended External Reporting for feedback.[9]

9 To summarise, the AASB proposes supporting the voluntary adoption of the TCFD recommendations.

5.

An update on the climate-related disclosure framework

5.1. The climate-related disclosure framework

Section 9AA of the Financial Reporting Act 2013 defines the climate-related disclosure framework as 'applicable climate standards and in relation to matters for which no provision is made in applicable climate standards, an authoritative notice'.

In the October consultation document, we signalled our intention at the time to develop two climate standards and an authoritative notice. We have progressed our thinking in this area, and now propose for the climate-related disclosure framework to comprise three standards (collectively referred to as 'Aotearoa New Zealand Climate Standards'). For more discussion on our rationale for this change please refer to Part 5.

Further information about the proposed Strategy, and Metrics and Targets disclosures of NZ CS 1 is provided in Parts 2 and 3 (including the proposals for first-time adoption provisions), and on NZ CS 3 in Part 5. Drafts of both NZ CS 2 and NZ CS 3 will be published as part of the exposure draft of the climate-related disclosure framework in July 2022.

We also anticipate issuing accompanying guidance documents. Guidance is discussed further in relation to each section of the disclosures.

Table 1: The climate-related disclosure framework

Standard	Focus
Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1)	The disclosure requirements relating to the four thematic sections (Governance, Risk Management, Strategy, and Metrics and Targets)
Aotearoa New Zealand Climate Standard 2: *First-time Adoption of Aotearoa New Zealand Climate Standards* (NZ CS 2)	The adoption provisions available to climate reporting entities the first time that they are required to disclose
Aotearoa New Zealand Climate Standard 3: *General Requirements for Climate-related Disclosures* (NZ CS 3)	General requirements for preparers to follow when making disclosures under Aotearoa New Zealand Climate Standards

5.2. Based on the TCFD

We received strong support in feedback on our October consultation document to base the main disclosure requirements in NZ CS 1 on the four thematic sections of the TCFD: Governance, Risk Management, Strategy, and Metrics and Targets. This structure, and the contents of the disclosures, take into consideration the 11 recommended disclosures under each section (Figure 3) as well as guidance published by the TCFD (including guidance recently published in October 2021).

NZ CS 1 is intended to be ambitious and forward-looking, to allow it to be future-proofed as far as possible. NZ CS 1 is also intended to be principles-based, focusing more on high-level areas for disclosure, rather than being overly prescriptive. This means that it should be sufficiently flexible to allow CREs to provide more or less information depending on the extent to which they are impacted by climate change. See also the comparison document that compares the TCFD disclosures with the XRB proposed disclosures.

Figure 3: TCFD thematic areas and recommended disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a. Describe the board's oversight of climate-related risks and opportunities.	a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a. Describe the organization's processes for identifying and assessing climate-related risks.	a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b. Describe management's role in assessing and managing climate-related risks and opportunities	b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b. Describe the organization's processes for managing climate-related risks.	b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
	c. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c. Describe how processes for identifying, assessing, and managing climated-related risks are integrated into the organization's overall risk management.	c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Table 2: Proposed structure of the four sections in NZ CS 1

Heading	Content
Disclosure objective(s)	Explains the disclosure objective(s) for each of the four sections. The purpose of the disclosure objective(s) is to describe why the information disclosed is useful to primary users. The disclosure objective(s) assists entities when making materiality judgements so that relevant material information is provided to primary users.
Explanatory paragraph	Reminds entities to apply judgement when applying the disclosure requirements and not to obscure relevant information by the inclusion of insignificant detail.
Disclosures	Information to be disclosed by an entity that is expected to enable the entity to meet the disclosure objective(s). The 11 TCFD recommended disclosures form the basis for the disclosures in NZ CS 1. The disclosures should not be used as a checklist. Rather, entities will need to apply judgement to determine what information is material and whether the information provided satisfies the disclosure objective.

5.3. Proposed structure of NZ CS 1

The proposed structure for each of the four thematic sections is explained in Table 2. This is the same structure that the XRB proposed in October 2021.

5.4. First-time adoption provisions (NZ CS 2)

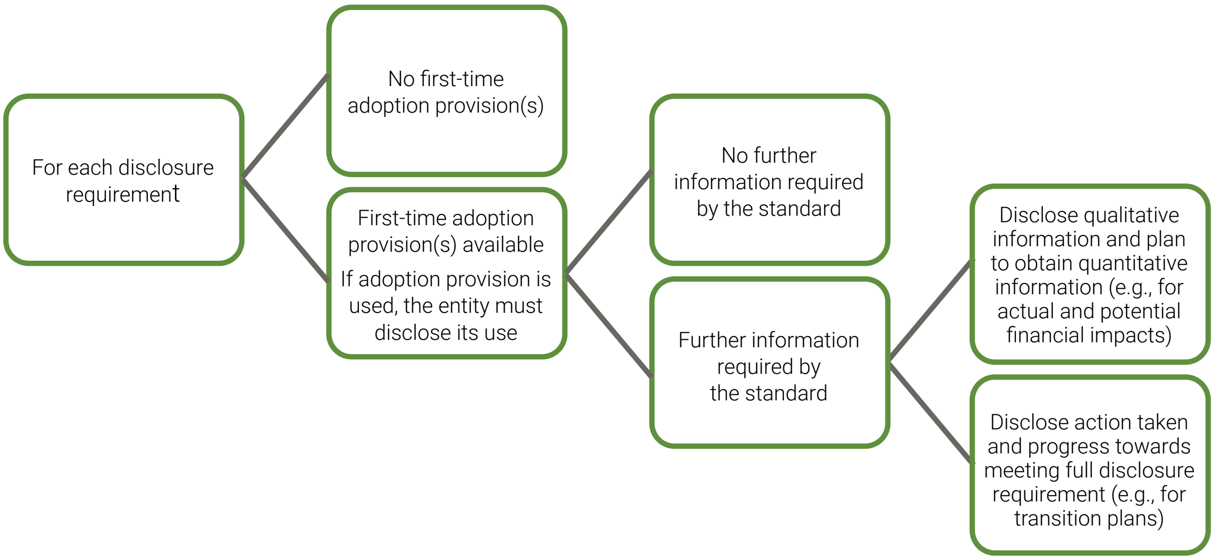
As discussed in the October consultation document, we are aware that the depth of understanding of climate-related risks and opportunities varies substantially across CREs, and that capability to enable high-quality disclosures takes time to develop. Therefore, to enable a meaningful reporting journey for CREs, we intend to issue a climate-related disclosures first-time adoption standard, *Aotearoa New Zealand Climate Standard 2: First-time Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2)*.[10]

First-time adoption standards offer various provisions to entities when new standards or requirements are to be applied for the first time, and can include practical expedients, phased adoption or relief from providing comparative information.[11] Those entities that are more advanced in their climate reporting journey may choose not to apply any of the provisions that we intend to make possible in NZ CS 2. If an entity does elect to apply an adoption provision, the entity will be required to disclose its use. Some of the proposed adoption provisions may require the entity to provide an alternative piece of information to primary users. Figure 4 below outlines the series of steps involved with electing to use a first-time adoption provision and the options available for different types of adoption provisions.

10 We have amended the name of NZ CS 2 since October to include the words 'first-time' to make it clear that an entity applies this standard when it qualifies as a CRE for the first time. This may be an entity already captured by the regime when the standards become effective, or for example, an entity that is not currently a CRE is captured by virtue of the fact that it grows to exceed the legislative size threshold. We have also future proofed the title of the standard to refer to the suite of standards.

11 Comparative information is disclosures (including amounts) for one or more prior years in respect of disclosures included in the report for the current year.

Figure 4: Overview of the process involved with electing to use first-time adoption provisions



5.5. Guidance

As noted in the October consultation document, the XRB's approach is to develop a principles-based and concise standard. However, we recognise that, at least initially, the disclosure requirements may represent a significant step up for some CREs, especially those that are less advanced in their climate reporting journeys. Accordingly, we intend to issue guidance for CREs to refer to when making their disclosures to assist in the consistent application of the standard. We are aiming to issue this guidance as part of the exposure draft.

We intend to provide accompanying guidance in an ongoing manner (more frequently at first to respond to CRE and primary user needs, and then updated at least every two years) as climate-related information is updated, and user expectations evolve. We will issue guidance on critical topics alongside the first version of NZ CS 1 and continue to provide further guidance over time. Most submitters to the October consultation document supported the intent of the XRB to provide sector-specific information as guidance, rather than in NZ CS 1 itself. We intend to consult on this guidance as it is developed.

The accompanying guidance is not intended to specify a level of performance that CREs should achieve, nor should it be taken as describing the only 'correct' way to carry out the activities that NZ CS 1 asks for disclosures about. Rather, the guidance is intended to provide contextual information and clarification regarding how the XRB has interpreted the numerous guidance documents published by the TCFD and by other entities, all available on the TCFD's knowledge hub. The guidance developed by the XRB will primarily aim to build on this existing knowledge base. This approach will provide preparers of disclosures, and the service providers they may need to rely on, with the greatest possible breadth and depth of instructional material. This means we do not intend to re-write the existing comprehensive suite of TCFD guidance, but rather to focus on our guidance development efforts on contextualising and clarifying how existing TCFD guidance can best be interpreted and applied in the context of a mandatory regime.

More information on the specific proposed contents of the guidance for Strategy and for Metrics and Targets is included in Parts 2 and 3.

PART TWO: STRATEGY

6.

NZ CS 1: Strategy

Part 2 contains the proposed section of NZ CS 1 on Strategy. It includes the proposed defined terms, proposed first-time adoption provisions, proposed guidance and key decisions. The defined terms are shown in *italics*.

6.1. Strategy: Proposed section

The intent of the Strategy section of NZ CS 1 is to provide primary users with an understanding of the strategic implications of climate change for the entity.[12]

Table 3: Proposed Strategy section of NZ CS 1

Disclosure objective	1. The objective of these disclosures is to enable primary users to understand the *impacts* of climate-related risks and opportunities on an entity's *business model, strategy and financial planning* over the short, medium, and long term, including *actual* and *potential financial impacts*. How an entity has employed *scenario analysis* to evaluate the *resilience* of its business model and strategy is a key factor in realising this objective. Such information is used to inform expectations about the future performance of an entity.
Explanatory paragraph	2. An entity must consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements. If the disclosures provided in accordance with paragraphs 3–7, are not sufficient to meet the objective in paragraph 1, an entity must disclose additional information necessary to meet that objective. However, an entity must ensure that relevant information is not obscured by the inclusion of insignificant detail.
Disclosures	3. To achieve the disclosure objective in paragraph 1, an entity must disclose: (a) a description of the climate-related risks and opportunities it has identified over the short, medium, and long term (see paragraph 4); (b) a description of the impact of climate-related risks and opportunities on its business model, strategy and financial planning (see paragraph 5); (c) a description of the resilience of its business model and strategy to different climate-related scenarios (see paragraph 6); and (d) the methodologies and assumptions underlying the climate-related scenarios used, and the scenario analysis process employed (see paragraph 7). 4. An entity must include the following information when describing its climate-related risks and opportunities (see paragraph 3(a)): (a) how it defines short, medium and long term and how the definitions are linked to its strategic planning horizons and capital deployment plans; (b) a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact on the entity; and (c) whether the risks and opportunities identified are physical or transition risks or opportunities and, where relevant, their sector and/or geography.

12 For more resources on Strategy, see the TCFD knowledge hub page: https://www.tcfdhub.org/strategy/

Disclosures

5. An entity must include the following information when describing the impact of climate-related risks and opportunities on its business model, strategy and financial planning (see paragraph 3(b)):
   (a) a description of its business model and strategy;
   (b) the actual impacts of climate-related risks and opportunities on its business model, strategy and financial planning;
   (c) the actual financial impacts of climate-related risks and opportunities on its *financial position, financial performance* and *cash flows;*
   (d) how climate-related risks and opportunities serve as an input to its financial planning processes, including for capital deployment and funding; and
   (e) the *transition* and *adaptation plan* aspects of its strategy, including the extent to which financial plans are aligned with these plans.
6. An entity must include the following information when describing the resilience of its business model and strategy (see paragraph 3(c)):
   (a) the potential impacts of climate-related risks and opportunities on its business model and strategy;
   (b) how its business model and strategy might change to address such risks and opportunities;
   (c) the potential financial impacts of climate-related risks and opportunities on its financial position, financial performance and cashflows; and
   (d) a description of the scenario analysis it has undertaken, using a range of climate-related scenarios including, at a minimum, a 1.5°C scenario and a greater than 2°C scenario.

Methodologies and assumptions

7. An entity must disclose the following information when describing the methodologies and assumptions underlying the *climate-related scenarios* used, and the scenario analysis process employed (see paragraph 3(d)):
   (a) the climate-related scenarios it has used, including:
      (i) a brief description of each scenario narrative;
      (ii) the time horizons considered, including endpoints and whether the endpoints are determined by a year or a temperature target;
      (iii) a description of the various pathways in each scenario and the key assumptions underlying pathway development over time, including the scope of operations covered, policy assumptions, macroeconomic trends, energy pathways, carbon sequestration from afforestation and nature-based solutions and technology assumptions including negative emissions technology;

Disclosures	(iv) an explanation of why the entity believes the chosen scenarios are relevant and appropriate to assessing the resilience of the entity's business model and strategy to climate-related risks and opportunities; and (v) the sources of data used to construct each scenario; (b) how the scenario analysis process has been conducted, including: (i) whether scenario analysis is a standalone analysis or integrated within the entity's strategy processes; (ii) the governance process used to oversee and manage the scenario analysis process, including the role of the board and management; (iii) if modelling has been undertaken, a clear description of what modelling was undertaken and why the model/s were chosen as the appropriate model/s; and (iv) which external partners and stakeholders are involved.

Please note that proposed disclosure 7(b)(ii) above may ultimately be more appropriate to include in the Governance section. We are including it above to raise it early for consideration. We will move it to Governance as part of the full exposure draft if deemed preferable.

6.2. Strategy: Proposed defined terms

Definitions of terms used in standards are important to ensure CREs have a consistent understanding of the disclosure requirements. Table 4 provides the proposed defined terms for the Strategy section.

Table 4: Proposed defined terms for the Strategy section of NZ CS 1

actual	The use of the term actual in this context refers to either impacts or financial impacts that have already occurred.
adaptation plan	An aspect of an entity's overall strategy that lays out how an entity aims to minimise risks and capture opportunities associated with physical climate changes.
business model	An entity's system of transforming inputs through its business activities (including operations) into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium, and long term.
cash flows	An entity's actual cash flows as reflected in its statement of cash flows or potential cash flows under different climate-related scenarios.
climate-related scenario	A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Note that climate-related scenarios are not intended to be probabilistic or predictive, or to identify the 'most likely' outcome(s) of climate change.

financial impacts	The translation of impacts into actual or potential impacts on financial position and/or financial performance and cash flows.
financial performance	An entity's actual income and expenses as reflected in its statement of financial performance or potential income and expenses under different climate-related scenarios.
financial planning	An entity's consideration of how it will achieve and fund its objectives and strategic goals. The process of financial planning allows entities to assess future financial positions and determine how resources can be utilised in pursuit of short- and long-term objectives. As part of financial planning, entities often create "financial plans" that outline the specific actions, assets, and resources (including capital) necessary to achieve these objectives over a 1-to-5-year period. However, financial planning is broader than the development of a financial plan as it includes long-term capital deployment and other considerations that may extend beyond the typical 3-to-5-year financial plan (e.g., investment, research and development, manufacturing, and markets).
financial position	An entity's actual assets, liabilities, and equity as reflected in its statement of financial position or potential assets, liabilities, and equity under different climate-related scenarios.
impacts	The effects of climate-related risks and opportunities materialising on the entity, which will in turn depend on the impacts of climate change on the broader socioeconomic and ecological systems the entity operates within. These impacts are driven by the specific climate-related risks and opportunities to which the entity is exposed, and its strategic and risk management decisions on seizing those opportunities and managing those risks.
potential	The use of the term potential in this context refers to impacts or financial impacts that may plausibly occur in the future.
resilience (in the context of an entity's strategy)	The characteristic of an entity's strategy that allows it to adapt to climate-related changes materially affecting it, while maintaining operations and profitability and safeguarding people, assets, and overall reputation. Strategy resilience has two main pillars: vulnerability and preparedness. Vulnerability incorporates the elements of exposure, sensitivity, and adaptive capacity. Preparedness incorporates the elements of strategic planning and adaptive capacity. Strategic planning is primarily a forward-looking exercise. Assessment of adaptive capacity involves both present and forward-looking aspects.
scenario analysis	A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. In the case of climate change, climate-related scenarios allow an entity to explore and develop an understanding of how physical and transition risks and opportunities may impact its business model and strategy over time.
strategy	An entity's desired future state. An entity's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the entity's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.
transition plan	An aspect of an entity's overall strategy that lays out a set of targets and actions supporting its transition toward a low-emissions economy, including actions such as reducing its GHG emissions.

6.3. Strategy: Proposed first-time adoption provisions

Table 5 contains the XRB's proposals for first-time adoption provisions relating to Strategy that we propose will appear in NZ CS 2.

Table 5: Proposed first-time adoption provisions for Strategy

Disclosure requirement	First-time adoption provision	Comment
Financial impacts Paragraph 4(b): a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact on the entity.	In the **first climate statement:** no further information required by the standard.	Starting with qualitative information, then moving to more quantitative information[13], reflects the importance of building maturity in the ability to calculate financial impacts to ensure that what is reported is ultimately meaningful and does not lead to the disclosure of potentially misleading and/or inaccurate disclosure. Given the necessary use of a relatively high degree of assumptions and proxies when looking forward over long time horizons, getting more familiar with quantifying financial impacts well will be important. We consider that providing quantitative information will necessitate being specific around the time horizons over which these impacts are expected to affect the entity (noting that these time horizons may be different to the time horizons over which risks and opportunities relate).
Paragraph 5(c): the actual financial impacts of climate-related risks and opportunities on its financial position, financial performance and cash flows.	In the **first climate statement:** disclose qualitative information only in relation to both actual and potential financial impacts.	
Paragraph 6(c): the potential financial impacts of climate-related risks and opportunities on its financial position, financial performance and cash flows.	From the **second climate statement onwards:** disclose quantitative information.	
Transition plans Paragraph 5(e): the transition and adaptation plan aspects of its strategy, including the extent to which financial plans are aligned with these plans.	In the **first climate statement:** disclose progress towards developing a transition plan. From the **second climate statement onwards:** disclose the transition plan.	This approach reflects the demands of primary users, the urgency of the climate crisis and the need to reduce emissions in line with existing legislative emissions reduction targets at the national level, in the context of the Paris Agreement. Capability building is not a concern in the same way as it is for adaptation planning.

13 See the Meridian Energy example cited by on page 29 of the TCFD's Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans. We would expect the qualitative information contained in the row called 'financial implications' to be disclosed but not the information in the row called 'quantification'.

Adaptation plans Paragraph 5(e): the transition and adaptation plan aspects of its strategy, including the extent to which financial plans are aligned with these plans.	In the **first two climate statements:** disclose progress towards developing an adaptation plan. From the **third climate statement onwards:** disclose the adaptation plan.	This approach reflects the importance of building capability and capacity in relation to understanding physical and transition risks, and decision-making under uncertainty, before entities plan significant adaptive action. It also reflects the relative lack of existing guidance on adaptation plans from the TCFD. We plan to develop supporting guidance on adaptation plans, as referred to below. We also expect further sector-level adaptation plans to be developed over time in New Zealand, so while they may not be familiar to all entities at present, they will be in time.

Figure 4 provides an example timeline, including first-time adoption provisions, for an entity with a 1 April to 31 March accounting period that enters into the regime in 2023.

Figure 5: Example timeline for an entity with a 31 March balance date, including first-time adoption provisions

6.4. Strategy: Proposed guidance

The guidance we are developing for the Strategy section is expected to include the topics below (provided in no particular order).

›› Making choices about short-, medium- and long-term time horizons

›› Physical and transition risk and opportunity identification

›› Transition plans

›› Adaptation plans

›› Getting started on scenario analysis at the sector level

›› Methods and assumptions underpinning scenario analysis at the individual entity level

›› The actual and potential financial impacts of climate-related risk and opportunity on an entity's financial position and performance

›› Industry-specific guidance, particularly with respect to financial sector entities, for whom TCFD guidance is less comprehensive

International comparison

The accompanying comparison document contains a detailed comparison of the proposed Strategy section against the TCFD recommendations (and relevant guidance) and the TRWG Prototype.

6.5. Strategy: Key decisions

The Strategy section is aiming to achieve an appropriate mix of principles-based disclosures and more prescriptive disclosures that provide comparability (most notably around the disclosure of scenario analysis methodologies and assumptions and scenario processes).

This attempt to balance principles and rules-based disclosures has been carried out in accordance with our design principles.

We have used the TCFD as a base for the Strategy section. This comprises the Strategy recommendation and three recommended disclosures and the TCFD's Guidance for All Sectors for Strategy, including important updates in October 2021. The relevant aspects of the updated guidance issued in October 2021 are referred to in each key decision below. We also considered a range of resources to determine if we needed to add to (or amend) any of the TCFD recommendations and guidance. In particular, we have drawn from the TRWG prototypes.

We are aware that CREs are at differing levels of maturity and their approach to CRD reporting will mature over time. We also acknowledge that, for many, the Strategy section may be the most challenging to report against. To fully inform primary users (with regard to reliability and comparability of disclosures), it will be important for CREs to disclose information on their progress towards understanding and managing climate-related risks and opportunities. In the early years we expect to see some CREs disclosing that they only have a limited understanding of the impacts and financial impacts of climate change. This in itself is likely to be material to primary users.

6.5.1. Description of business model and strategy

We consider that including an additional standalone disclosure of a description of the entity's business model and strategy provides necessary and useful information for primary users. This is because it ensures that subsequent disclosures relating to the impacts of climate change on the business model and strategy can be understood. Our intent is that this is a summarised description of an entity's business model and strategy. Some entities may already be disclosing this type of information in other reports (such as integrated or sustainability reports) and we envisage permitting cross referencing to such information.

6.5.2. Separating 'actual' and 'potential' from 'financial impacts'

The TCFD's recently updated guidance more explicitly addresses the disclosure of actual and potential financial impacts than previous versions. The TCFD explains that the change was made because while "[u]sers rate disclosure of financial impacts as very useful…only 20% of preparers disclose such impacts".[14] We have therefore included a requirement to disclose actual and potential impacts to remain aligned with the TCFD.

However, we have made the decision to decouple the concepts of 'actual' and 'potential' from that of 'financial impact'. This is for two reasons. First, so that we can refer to actual or potential impacts that are different to financial impacts (see proposed Strategy disclosures 5b and 6a). Second, so that we can also be clear about whether the information requested is current/historical, or future focused. For example, 'actual' is used in relation to Strategy disclosure 3b) and relates to the past/present, whereas potential is used in relation to 3c), looking forwards. This approach is in alignment with the TRWG prototype (noting that the prototype uses the term 'anticipated' instead of 'potential').

6.5.3. Disclosure of transition and adaptation plans

In relation to the TCFD's Strategy disclosure b), the TCFD's recently updated guidance now more explicitly addresses disclosure of transition and adaptation plans (see Table 4 for the definitions of both transition and adaptation plans). We encourage CREs to read this guidance to ensure understanding of what is meant by transition and adaptation plans.

We consider that both transition and adaptation plans are important aspects of the entity's overall strategy. As part of the TCFD's consultation on its guidance for metrics, targets and transition plans, it found that "96% of users responded that organizations' disclosure of transition plans would be "very useful" or "somewhat useful"".[15]

We do not require transition plans to be tied to any particular emissions target such as net zero and/or temperature outcome such as 1.5°C. However, entities will be free to disclose if they have done so. We plan to set out in guidance what New Zealand-specific considerations should form part of transition plans, such as the 2050 net zero emissions reduction target in the Climate Change Response Act 2002 and emissions budgets.

To support the development and disclosure of adaptation plans, we intend to take up the TCFD's challenge to develop further guidance on adaptation plans and to require disclosure on adaptation plans, subject to first-time adoption provisions as noted in Table 5.

6.5.4. TCFD and TRWG's direction to consider a 1.5°C scenario

The TCFD's recently updated guidance now emphasises the need to consider the 1.5°C ambition in the Paris Agreement, the primary purpose of which is to better explore transition risk. This is more ambitious than the original TCFD Strategy recommended disclosure (c) that asks for a less ambitious '2°C or lower' scenario. The TRWG also included reference to a 1.5°C scenario, labelling it a Paris-aligned scenario.

The proposed disclosures broadly align with these new developments by requiring entities to disclose the scenario analysis undertaken, using a range of climate-related scenarios including, at a minimum, a 1.5°C scenario, and a greater than 2°C scenario

14 See https://assets.bbhub.io/company/sites/60/2021/08/Summary-of-June-2021-Public-Consultation.pdf at page 16.

15 See https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf at page 40 and also https://assets.bbhub.io/company/sites/60/2021/08/Summary-of-June-2021-Public-Consultation.pdf

(Strategy disclosure 6(d)). The requirement for two scenarios at a minimum avoids prescribing a certain number of scenarios. We do not wish to set the bar too low or too high in a quickly evolving area but consider that fewer than two scenarios would be unworkable as that would fail to achieve the primary purpose of the analysis (to test how resilient the entity's strategy is under a number of different plausible futures).

Beyond requiring a 1.5°C scenario, the standard does not prescribe which global mean temperature outcome should be used to explore higher physical risk (for example specifying 2.7°C and/or 3.3°C by 2100) or by referring to the corresponding Representative Concentration Pathways (RCP) such as RCP4.5 or 6. The requirement for a 'greater than 2°C scenario' also leaves this open. We have avoided the words 'high' or 'higher' physical risk scenario to avoid the perception that such scenarios do not include transition risk(s). We are also cognisant of the debate regarding the value of exploring some of the upper end high physical risk scenarios such as RCP6.

6.5.5. Scenario analysis methodologies and assumptions

We have included disclosures (Strategy disclosures 3d), 7a) and 7b)) on the methodologies and assumptions that CREs have used as part of their scenario analysis to aid primary users when comparing information between entities. In so doing we have effectively added a fourth high level disclosure category (d)) alongside the TCFD's existing Strategy a), b) and c). The TCFD's guidance on scenario analysis for non-financial companies were heavily referenced for this purpose. See further detail in the comparison document.

Disclosure of methodologies and assumptions is consistent with what primary users are demanding to enable them to interpret scenario analysis results. The TRWG has also required disclosure on similar details regarding the methodologies and assumptions that make up scenario analysis, albeit with some differences such as modelling undertaken, data sources, and the scenario processes used. See the comparison document for further detail.

This section also includes specific reference to some aspects of emissions pathways and mitigation and adaptation planning at a national level that are particularly important for the New Zealand context with significant land-use related emissions. We also specifically made reference to negative emissions technology to help ensure transparency on its role in any given emissions pathway.

6.5.6. Providing first-time adoption provisions for actual and potential financial impacts, transition and adaptation plans

See explanation above in Table 5.

6.5.7. Excluding scenario analysis from first-time adoption provisions

We carefully considered but ultimately decided against providing first-time adoption provisions for Strategy disclosures relating to scenario analysis 6(d), 7(a) and 7(b). Scenario analysis plays a core role in the broader context of NZ CS 1. Scenario analysis should precede the calculation of potential financial impacts[16], as well as the design of transition and adaptation plans because it provides entities with systemic insights into how future climate-related risks and opportunities might affect their business models and strategies. We consider that entities should aim to start scenario analysis now, in advance of the XRB issuing the climate-related disclosure framework, if they have not already begun to do so. We are currently actively encouraging industry sectors to come together to create sector-level scenario analysis in advance of the standard becoming effective.

16 Noting also that, over time, sector-level scenario construction, followed by further scenario analysis at entity level, could also lead to better understanding of actual financial impacts.

Further, if first-time adoption provisions for scenario analysis were included, we consider that adoption provisions for actual and potential financial impacts, and transition and adaptation plans would subsequently need to be further delayed. This is because of the need for scenario analysis to precede these activities as noted above. Such delays would leave broader risks for the financial system if this information was not disclosed until 2025–2030, in the context of New Zealand's 2030 emissions reduction target.

Questions to consider:

1. **Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?**
   (a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? 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 between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?
2. **Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?**
3. **Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a 'greater than 2°C scenario'? Why or why not?**
4. **We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?**
5. **Do you have any views on the defined terms as they are currently proposed?**
6. **The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:**
   (a) Do you agree with the proposed first-time adoption provisions? Why or why not?
   (b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.
   (c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

PART THREE: METRICS AND TARGETS

7.

NZ CS 1: Metrics and Targets

Part 3 contains the proposed section of NZ CS 1 on Metrics and Targets. It includes the proposed defined terms, requirements for comparative information and consistency of reporting, proposed first-time adoption provisions, proposed guidance and key decisions.

7.1. Metrics and Targets: Proposed section

The intent of the Metrics and Targets section of NZ CS 1 is to enable primary users to track key indicators and progress against targets used to measure and manage climate-related risks and opportunities.

Note that defined terms are shown in *italics*.[17]

Table 6: Proposed Metrics and Targets section of NZ CS 1

Disclosure objective	1. The objective of these disclosures is to enable primary users to understand how an entity measures and manages its climate-related risks and opportunities. Such information supports primary user's evaluations of the entity's potential risk-adjusted returns, ability to meet financial obligations, general exposure to climate-related risks and opportunities, and progress in managing or adapting to those risks and opportunities. They also provide a basis upon which primary users can compare entities within a sector or industry.
Explanatory paragraph	2. An entity must consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements. If the disclosures provided in accordance with paragraphs 3–12, are not enough to meet the objective in paragraph 1, an entity must disclose additional information necessary to meet that objective. However, an entity must ensure that relevant information is not obscured by the inclusion of insignificant detail.
Disclosures	3. To achieve the disclosure objective in paragraph 1, an entity must disclose: (a) the *metrics* used to measure and manage climate-related risks and opportunities in line with its strategy and risk management processes (see paragraphs 4, 5 and 6); (b) the *targets* used to manage climate-related risks and opportunities and performance against targets (see paragraph 7); and (c) the methodologies and assumptions used to calculate its metrics and targets (see paragraphs 11 and 12).

17 For more resources on Metrics and Targets see the TCFD knowledge hub page: https://www.tcfdhub.org/metrics-and-targets/

Disclosures

Cross-industry metrics

4. An entity must disclose cross-industry metrics consistent with the climate-related metric categories below (see paragraph 3(a)):
   - (a) greenhouse gas (GHG) emissions: *gross scope 1, scope 2, scope 3 (value chain) emissions* in metric tonnes of *CO_2e* (see paragraphs 8, 9 and 10)
   - (b) GHG *emissions intensity*;
   - (c) transition risks: amount or percentage of assets or business activities vulnerable to transition risks;
   - (d) physical risks: amount or percentage of assets or business activities vulnerable to physical risks;
   - (e) climate-related opportunities: proportion of revenue, assets, or other business activities aligned with climate-related opportunities, expressed as an amount or percentage;
   - (f) capital deployment: amount, in reporting currency, of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities;
   - (g) *internal emissions price*: price on each tonne of greenhouse gas emissions used internally by an entity, expressed in reporting currency per metric tonne of CO_2e; and
   - (h) remuneration: proportion of management remuneration linked to climate-related risks and opportunities in the current period (see Governance paragraph 4 (c)), expressed as a percentage, weighting, description or amount in reporting currency.

Industry-specific metrics

5. An entity must disclose the industry-specific metrics it uses to measure and manage its climate-related risks and opportunities.

Entity-specific metrics

6. An entity must include any other key performance indicators used to measure and manage climate-related risks and opportunities.

Targets

7. An entity must include the following information when describing the targets used to manage climate-related risks and opportunities and performance against targets (see paragraph 3(b)):
   - (a) whether the target is absolute or intensity based;
   - (b) whether the target is science-based, and if so, whether it has been validated by a third party;
   - (c) the time frame over which the target applies;
   - (d) the associated *interim targets;*
   - (e) the *base year* from which progress is measured; and
   - (f) a description of performance against targets.

Disclosures	**GHG emissions** 8. An entity must disclose the following in relation to its GHG emissions: (a) the cross-industry GHG emissions metric set out in paragraph 4 (a); (b) a statement that the GHG emissions have been extracted from its GHG emissions report (see paragraph 9); (c) a statement describing the standards, protocols, and methodologies that the entity's GHG emissions report has been prepared in accordance with; (d) the *consolidation* approach for emissions: whether equity share, financial control, or operational control; (e) the source of *emission factors* and the *global warming potential* (GWP) rates used or a reference to the GWP source; (f) a summary of specific exclusions of sources, facilities and/or operations. 9. An entity must prepare a GHG emissions report to support its disclosures of GHG emissions at paragraphs 4(a) and 8(b) – (f). The GHG emissions report must be linked or cross-referenced in its disclosures. 10. An entity's GHG emissions disclosures must be drawn from and consistent with information presented in its GHG emissions report for the relevant periods. Where information in the GHG emissions report has subsequently been restated, the information in the climate statement shall be drawn from, and be consistent with, that restated information. **Methodologies and assumptions** 11. An entity must provide a description of the methodologies and assumptions used to calculate or estimate climate-related metrics and targets where they are not apparent including the significant assumptions made and the limitations of those methods. 12. An entity must identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.

7.2. Metrics and Targets: Proposed defined terms

Definitions of terms used in standards are important to ensure CREs have a consistent understanding of the disclosure requirements. Table 7 provides the proposed defined terms for the Metrics and Targets section.

Table 7: Proposed defined terms for the Metrics and Targets section of NZ CS 1

base year	An historic datum (a specific year or an average over multiple years) against which an entity's emissions are tracked over time.
CO_2e	Carbon dioxide equivalent. The universal unit of measurement to indicate the global warming potential of each of the seven greenhouse gases, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. It is used to evaluate releasing (or avoiding releasing) any greenhouse gas against a common basis.
consolidation	Combination of GHG emissions data from separate operations that form part of one company or group of companies.
emissions	The release of greenhouse gases into the atmosphere.
emission factor	A factor allowing GHG emissions to be estimated from a unit of available activity data (for example, tonnes of fuel consumed, tonnes of product produced) and absolute GHG emissions.
emissions intensity	Intensity ratios express GHG impact per unit of physical activity or unit of economic output. A physical intensity ratio is suitable when aggregating or comparing across businesses that have similar products. An economic intensity ratio is suitable when aggregating or comparing across businesses that produce different products. A declining intensity ratio reflects a positive performance improvement. Many companies historically tracked environmental performance with intensity ratios. Intensity ratios are often called 'normalised' environmental impact data. Examples of intensity ratios include product emission intensity (for example, tonnes of CO_2 emissions per electricity generated); service intensity (for example, GHG emissions per function or per service); and sales intensity (for example, emissions per sales).
GHG emissions report	The report from which GHG disclosure data is extracted for the climate statement. This contains all the details required by the recognised standards or methodologies (basis of preparation) used to calculate emissions.
global warming potential (GWP)	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of carbon dioxide (CO_2).

greenhouse gases (GHG)	The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO_2); methane (CH_4); nitrous oxide (N_2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF_3); perfluorocarbons (PFCs); and sulphur hexafluoride (SF_6).
gross emissions	The total of emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based methodology. Removals should be reported separately.
interim target	Refers to a short-term milestone between the organization's medium- or long-term target and current period.
internal emissions price	A monetary value on GHG emissions an entity uses internally to guide its decision-making process in relation to climate change impacts, risks and opportunities.
metric	A metric is a quantity indicative of the level of historical, current, and forward-looking climate related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against climate-related targets over the duration of the period for which a target is set.
scope 1	All direct GHG emissions.
scope 2	Indirect GHG emissions from consumption of purchased electricity, heat, or steam.
scope 3	Other indirect emissions not covered in scope 2 that occur in the value chain of the reporting entity, including both upstream and downstream emissions. Scope 3 categories are: purchased goods and services; capital goods; fuel- and energy-related activities; upstream transportation and distribution; waste generated in operations; business travel; employee commuting; upstream leased assets; downstream transportation and distribution; processing of sold products; end-of-life treatment of sold products; downstream leased assets; franchises; and investments.
target	A target is a specific level, threshold, or quantity of a metric that the entity wishes to meet over a defined time horizon in order to achieve the entity's overall climate-related ambition and strategy.
value chain	The upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).

7.3. Metrics and Targets: Requirements for comparative information and consistency of reporting

The requirements for comparative information and consistency of reporting will be included in NZ CS 3. The proposed text for this section will be in the exposure draft. Proposed content relevant to Metrics and Targets includes:

- for each metric reported in the current period an entity must disclose at least two years of comparative information to provide a basis for tracking progress; [18]
- if a metric is redefined an entity must restate comparative figures where practical; and
- if a metric is changed or no longer disclosed, an entity must explain the reason for the change.

Please note that the XRB has agreed to include a first-time adoption provision for the disclosure of comparative information (see section 5.4 for an explanation of first-time adoption provisions). This means that an entity will not be required to provide comparative information as required by Aotearoa New Zealand Climate Standards in its first climate statement.

7.4. Metrics and Targets: Proposed first-time adoption provisions

Based on feedback from our EAP and other informal consultation, we do not believe that any first-time adoption provisions are required for the Metrics and Targets disclosures. The XRB is of the view that the cross-industry metrics, excluding scope 3 emissions, are not particularly onerous to calculate and it should be for the CRE to determine which industry-specific and/or entity specific metrics are most relevant for them to report.

It is recognised that scope 3 emissions can be more challenging to report. But, as this is where many climate-related risks and opportunities lie, it is important that entities get underway with measuring and reporting these as soon as possible.

Comparative information for metrics as required under NZ CS 3 will be subject to first-time adoption provisions (see Section 7.3 above).

Assurance requirements are due to come into force from 27 October 2024. This means that any CRE with an accounting period that ends on or after 27 October 2024 will be required to get their GHG emissions disclosures assured (see Sections 3.3 and 8).

7.5. Metrics and Targets: Proposed guidance

The guidance we are developing for the Metrics and Targets section is expected to include the topics below (provided in no particular order).

- Cross-industry metrics
- Sector-specific metrics
- Targets
- Greenhouse gas emissions
- Standards to calculate emissions

Preparers who would like to get started with measuring their GHG emissions should refer to the GHG Protocol's Corporate Standard and the Corporate Value Chain (Scope 3) Standard.

International comparison

The accompanying comparison document contains a detailed comparison of the proposed Metrics and Targets section against the TCFD recommendations and the TRWG Prototype.

18 This is drawn from the TCFD guidance on Metrics, Targets, and Transition plans (page 12).

7.6. Metrics and Targets: Key decisions

The Metrics and Targets section aims to achieve an appropriate mix of principles-based disclosures, including flexibility for entity-specific disclosures, and more prescriptive disclosures that provide comparability (most notably around the disclosure of cross-industry metrics). This attempt to balance principles and rules-based disclosures has been carried out in alignment with our design principles.

As per the identified design principles, in drafting the Metrics and Targets section we began with the TCFD as a base. This comprised reviewing the recommended disclosures and the Guidance for All Sectors including the TCFD guidance on Metrics, Targets and Transition Plans released in October 2021. We then considered a range of resources to determine if we needed to add (or amend) any of the TCFD recommendations and guidance. These additional resources included:

- the TRWG prototype (including their general requirement prototype);
- the GHG Protocol Corporate Accounting and Scope 3 Value Chain standards;[19]
- ISO 14064-1:2018 Greenhouse gases — Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals; and
- Global Reporting Initiative (GRI) standards for GHG disclosures.

7.6.1. Structure of disclosures

TCFD include GHG emissions disclosures as a cross-industry metric under recommended disclosure a) and also include them as a separate recommended disclosure b). We consider this is unnecessary duplication and have included GHG emissions disclosures along with other cross-industry metrics.

We have added a separate sub-section for the disclosure of methodologies and assumptions used by the CRE to calculate its metrics and targets. This requirement is included in the Guidance for All Sectors for both metrics and targets in TCFD. For high quality, comparable disclosures we consider that this is important and so have elevated it to the standard rather than including it in guidance.

7.6.2. Cross-industry metrics

The cross-industry metrics have been drawn from the TCFD and aligned with those proposed by TWRG.

Preparers are directed to the TCFD guidance on Metrics, Targets and Transition Plans released in October 2021 for additional information on the proposed metrics and targets, in particular Table A21, which provides additional information on the cross-industry, climate-related metric categories and financial impacts, including non-exhaustive alignment with other frameworks, example metrics, and example disclosures from financial and non-financial organisations.

19 Preparers who would like to get started with measuring their GHG emissions are advised to refer to these standards. Financial institutions should also refer to the Global GHG Accounting and Reporting Standard for the Financial Industry.

7.6.3. Not specifying entity- or industry-specific metrics

We consider that entities should report those metrics which they actually use for the management of climate-related risks and opportunities. These may be industry-specific or entity-specific metrics. Our decision not to specify industry-specific metrics is in alignment with our design principles.

However, we acknowledge the TCFD provides guidance on industry-specific metrics[20] which are likely to be useful for management purposes (see Annex 1 for a summary) and the TWRG has proposed an extensive list drawn from SASB Standards. We intend to watch domestic and global developments in this space and will consider whether a list of industry-specific metrics should be included in future updates to the standard if required for disclosure comparability. An example of this includes portfolio alignment metrics for financial institutions. The UK Financial Conduct Authority's has recently decided to require disclosure against additional, mostly forward-looking, metrics (for example climate value-at-risk (VaR) and portfolio alignment metrics) 'as far as reasonably practicable', over and above disclosure against a similar bundle of cross-industry metrics to those we are proposing.[21]

We are mindful that many CREs will be reporting against other standards (as they are developed, such as other potential ISSB standards or GRI standards) for other non-financial topics. As mentioned, the XRB has also been given the mandate to develop non-binding guidance for non-financial reporting. Some of these will also have recommended metrics and we believe there is limited value (for the CRE) in having to report metrics that are not used for management purposes.

7.6.4. Targets from TCFD recommended disclosures

Required disclosures for targets have been drawn from the TCFD recommended disclosures in the Metrics and Targets guidance. These are largely mirrored in the TRWG prototype. We have added an additional disclosure for science-based targets drawn from TRWG as this helps the primary user to understand the level of ambition and provide comparability for emissions-reduction targets.

7.6.5. Greenhouse gas emissions

GHG emissions disclosures

NZ CS 1 is primarily a disclosure rather than a measurement standard. We propose that a CRE prepares a separate GHG emissions report and that selected extracts from that report are disclosed in its Climate Statement. Section 8.1 explains the scope of the assurance engagement for GHG emissions. However, it is also important to note that disclosures 11 and 12, and any other general requirements in NZ CS 3, also apply to the disclosure of GHG emissions (as per disclosure 4a), 8, 9 and 10).

The XRB recognises that there are existing globally accepted and commonly used GHG emissions measurement and reporting standards including the GHG Protocol and ISO 14064-1. Therefore we are not proposing to mandate a single approach but instead propose that CREs disclose the standards, protocols and methodologies used. However, we do consider that it will be useful in the accompanying (non-mandatory) guidance to cite examples of commonly accepted standards and guidance, both international and domestic. Examples might include the GHG Protocol, PCAF guidance or TCFD guidance.

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20 See the Supplemental Guidance of the TCFD's implementing guidance.

21 See https://www.fca.org.uk/publication/policy/ps21-24.pdf

In order to improve transparency and consistency of disclosures for users, we have required the disclosure of gross emissions and scope 3 value chain emissions. See sections below.

We have not required a particular consolidation approach (equity share, operational control or financial control).[22] While the choice of consolidation approach can move emissions between scopes, we believe that with the inclusion of Scope 3 value chain emissions the total emissions disclosed will be similar irrespective of consolidation approach applied. Instead, we have required disclosure of the consolidation approach used.

In addition, we require disclosure of the source of emissions factors, the global warming potential rates used and a summary of exclusions. We believe these, along with the consolidation approach provide key information to enable primary users to understand how emissions have been calculated without having to refer to the GHG emissions report. Based on expert discussions, we consider these to be the most material disclosures.

As GHG emissions disclosures are required to be the subject of an assurance engagement under section 461ZH of the *Financial Markets Conduct Act*, for an assurance opinion to be formed over disclosed GHG emissions the information needs to be prepared and reported in accordance with suitable measurement criteria. This means a GHG emissions report will need to be prepared in accordance with a generally accepted methodology to support the GHG emissions disclosures in the climate statement. Our proposed paragraph 9 requires a CRE to prepare a GHG emissions report. This GHG emissions report is an integral part of the disclosures, will be required to be publicly available, and will be subject to assurance (see section 8.1).

Gross rather than absolute emissions

We have used the term 'gross' GHG emissions rather than 'absolute' as used by the TCFD. The TRWG uses 'gross absolute'. The intention is that CREs should report their emissions before any trades, credits or removals are applied. This includes accounting for scope 2 emissions using the location-based methodology and reporting any removals separately. This shows the total emissions that a CRE is causing. We believe that this is a transparent approach which will focus attention on emissions reductions rather than offsetting and can help to avoid allegations of greenwashing. This approach is consistent with the GRI Standard 305 disclosures. Gross is a defined term in NZ CS 1. A CRE can provide additional disclosures such as market-based emissions if this is how they measure and manage their climate-related risks and opportunities.

Scope 3 value chain emissions

We have required disclosure of scope 3 emissions for all CREs.

For most CREs this is where the most significant emissions risks and opportunities lie, and it is important for CREs and primary users to understand these risks and opportunities. This stance is supported by our EAP and most of the feedback received from our first consultation. 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 emissions.[23] 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.[24]

This decision is in alignment with both TCFD and TRWG. The TCFD notes:

22 For further information on consolidation approach see GHG Protocol Corporate Accounting and Reporting Standard page 17.

23 CDP (2021) Supply Chain Report 2020 https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP_SC_Report_2020.pdf?1614160765

24 CDP (2021) The Time to Green Finance https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/741/original/CDP-Financial-Services-Disclosure-Report-2020.pdf?1619537981

> *The Task Force strongly encourages all organizations to disclose scope 3 GHG emissions. While the Task Force recognizes the data and methodological challenges associated with calculating scope 3 GHG emissions, it believes such emissions are an important metric reflecting an organization's exposure to climate-related risks and opportunities.*[25]

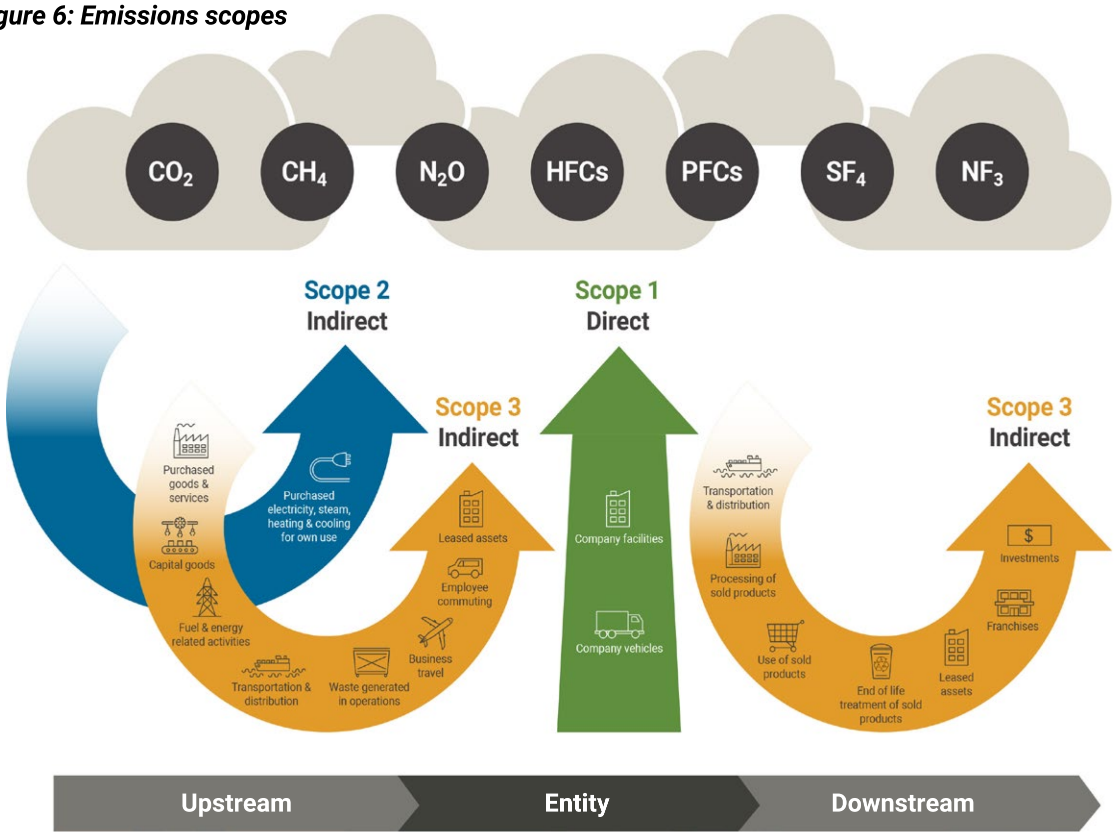
TRWG list the GHG Protocol scope 3 categories in their definition of scope 3.[26]

We received feedback from our EAP and other informal consultation that entities consider scope 3 categories to be travel, waste and freight, and many entities measure these three categories. The feedback they gave us was that emphasis is now on the full value chain and we should be very clear in NZ CS 1, that scope 3 means full value chain. We have therefore added 'value chain' after scope 3 (Figure 4).

The GHG Protocol uses the following categories for scope 3 emissions: purchased goods and services; capital goods; fuel- and energy-related activities; upstream transportation and distribution; waste generated in operations; business travel; employee commuting; upstream leased assets; downstream transportation and distribution; processing of sold products; end-of-life treatment of sold products; downstream leased assets; franchises; and investments.

For financial institutions this will mean measuring the financed emissions of a portfolio. This enables financial institutions to set targets, inform actions and disclose progress. Understanding these emissions is crucial for portfolio alignment and decarbonisation.

Figure 6: Emissions scopes



25 TCFD Implementing Guidance 2021 page 21 footnote 32.

26 TRWG Climate Related Disclosures Prototype Appendix A – Defined Terms.

7.6.6. Methodologies and assumptions

We are requiring CREs to disclose information on methodologies and assumptions for the calculation and estimation of all climate-related metrics and targets. Metrics and Targets disclosure 11 is from TCFD guidance and disclosure 12 is from the TRWG prototype.

The key point is for primary users to understand the level of estimation and uncertainty included in these key metrics. We would anticipate that both levels of estimation and uncertainty would reduce over time. This is accepted practice as shown by the examples below.

> *[T]he TCFD encourages all preparers to begin disclosing metrics consistent with the cross-industry, climate-related metric categories, but acknowledges not all will have the resources to present quantitative information across all metric categories. Instead, the Task Force encourages organizations to begin where resources and expertise allow; for example, by disclosing qualitative information first or focusing on the sectors, business lines, or assets with the most significant climate-related risks and opportunities and improving quantitative disclosures over time.*[27]

From the PCAF standard:

> *Limited data is often the main challenge in calculating financed emissions; however, data limitations should not deter financial institutions from starting their GHG accounting journeys. Beginning with estimated or proxy data can help identify carbon-intensive hotspots in lending and investment portfolios. The Standard provides guidance on data quality scoring per asset class, facilitating data transparency and encouraging improvements to data quality in the medium and long term.*[28]

7.6.7. First-time adoption provisions

We have decided not to provide first-time adoption provisions for Metrics and Targets. See explanation above in section 7.4. Please note that there is a first-time adoption provision for the disclosure of comparative information. This means that an entity will not be required to provide comparative information in its first climate statement.

27 TCFD (2021) Guidance on Metrics, Targets, and Transition Plans page 15.

28 PCAF (2020) Global Reporting and Accounting Standard for the Financial Industry page 9.

Questions to consider:

7. **Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?**
   (a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? 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 between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?
8. **We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?**
9. **We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?**
10. **Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?**
11. **Do you have any views on the defined terms as they are currently proposed?**
12. **The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?**

PART FOUR: ASSURANCE

8. Assurance

Section 461ZH of the Financial Markets Conduct Act 2013 requires CREs 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. These assurance requirements must apply, at the latest, to an accounting period that commences before, but ends after the third anniversary of Royal Assent of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021.

The Act received Royal Assent on 27 October 2021. This means that CREs will be required to get GHG emissions disclosures assured for any accounting period (including any open accounting period) that ends on or after 27 October 2024 (see Figure 1). Assuming that the XRB issues NZ CS 1 as intended in December 2022, all CREs will publish at least one climate statement before assurance is required over GHG emissions disclosures.[29]

The Act requires that the assurance engagement must comply with applicable auditing and assurance standards issued by the XRB.

The assurance standards deal with the independence assurance practitioners' overall responsibilities when conducting the assurance engagement. The XRB will be engaging separately around assurance requirements that apply to assurance practitioners over the course of 2022.[30]

8.1. GHG emissions

For an assurance opinion to be formed over disclosed GHG emissions, the information needs to be prepared and reported in accordance with suitable measurement criteria. This means a GHG emissions report will need to be prepared in accordance with a generally accepted methodology to support the GHG emissions disclosures in the climate statement. Table 8 explains the intended scope for the assurance engagement.

The XRB expects to specify the above as part of the climate-related disclosure framework so that the scope of the assurance engagement is clear for both CREs and assurance practitioners.

Table 8: Intended scope of the assurance engagement

Metrics and Targets disclosure	Description
Disclosure 4(a)	Scope 1, 2 and 3 GHG emissions
Disclosure 8	Additional requirements for the disclosure of GHG emissions under disclosure 4(a)
Disclosure 9	The requirement to prepare a GHG emissions report and provide a link or cross reference (the GHG emissions report is an integral part of the disclosures and will be required to be publicly available)
Disclosure 10	Confirmation that GHG disclosures have been drawn from the GHG emissions report

29 We are aware that assurance over other disclosures beyond GHG emissions may be voluntarily obtained by reporting entities (see section 461ZHC of the Financial Markets Conduct Act 2013), and that such assurance may be required in the future (subject to any future legislative amendments).

30 The Act also includes a criminal offence for non-compliance with the applicable auditing and assurance standards. The XRB standards do not establish requirements as to who can conduct the assurance engagement, and the XRB is not responsible for the accreditation or oversight of assurance practitioners. The FMA is responsible for monitoring and enforcement of the CRD regime.

8.2. Level of assurance

Assurance engagements, including those specifically relating to GHG emissions, may be either 'reasonable' or 'limited' (Table 9). Typically, the level of assurance is determined in legislation. However, in this instance, the XRB will specify the minimum required level of assurance as part of the climate-related disclosure framework.

The XRB has investigated this topic in two main ways. First, we surveyed existing practice.[31] This survey focused on levels of assurance for early adopters in New Zealand. For those entities that are currently reporting emissions (74), 51% do not appear to get assurance. Of those that do get assurance (36), the majority (75%) get assurance to a reasonable standard over their scope 1 and 2 emissions, and to a lesser extent, over some scope 3 emissions where they are easy to measure, i.e., travel and waste.

However, the proposed disclosures in NZ CS 1 include all scope 1, 2 and 3 emissions. Given that certain types of emission estimates are subject to high estimation uncertainty, it may be disproportionally difficult for the assurance practitioner to obtain additional evidence to reduce the engagement risk to provide a reasonable level of assurance. In addition, the information systems and controls that underpin the GHG information are often developed over time, limiting the assurance practitioner's ability to rely on the entity's controls to reduce the engagement risk. We believe that, at this time, the cost is likely to outweigh the benefit of increasing the minimum level of assurance from limited to reasonable. It should also be noted that entities that are voluntarily obtaining assurance are early adopters and so are likely to be further advanced than most other CREs in this regime.

Table 9: A short explanation of reasonable and limited assurance

Reasonable assurance	This is the highest level of assurance. The conclusion in a reasonable assurance engagement is framed in a positive sense, i.e.: "In our opinion, XYZ's GHG inventory for the year ended 31 December 2021 totalling XXt CO2e has been prepared and presented fairly, in all material respects, in accordance with the criteria defined below."
Limited assurance	This is a lower level of assurance compared to reasonable. The conclusion in a limited assurance engagement is framed in a negative sense, i.e.: "Based on our limited assurance procedures, nothing came to our attention that caused us to believe that XYZ's GHG inventory for the year ended 31 December 2021 totalling XX tCO2e, has not been prepared and presented fairly, in all material respects, in accordance with the criteria defined below".

31 Tiller, D. and Ryan, J. (2021). A recent survey of GHG emissions reporting and assurance, The Australian Accounting Review, https://doi.org/10.1111/auar.12364.

Second, the XRB conducted a series of expert sessions[32] relating to the assurance of GHG emissions. At these sessions, concerns were raised about the financial burden of requiring reasonable assurance over certain categories of scope 3 emissions.

Accordingly, the XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. However, we consider that setting the minimum level of assurance for GHG emissions at limited assurance should be revisited after a suitable period of time, once the assurance regime has commenced (from 27 October 2024). We also note that any CRE may obtain reasonable assurance over some or all of their GHG emissions disclosures if they wish.

Question to consider:

13. The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?

32 We ran five sessions with consultancy and advisory firms who provide specialist advice to clients on measuring emissions in alignment with both the GHG Protocol and ISO 14064-1:2018.

PART FIVE:
NZ CS 3

9.

NZ CS 3

9.1. Proposed NZ CS 3: General Requirements for Climate-related Disclosures

In the October consultation document, we proposed that NZ CS 1 would include several general requirements (for example, requirements in relation to materiality, comparatives, presentation etc). We are now proposing that these general requirements will be located in a new standard *Aotearoa New Zealand Climate Standard 3: General requirements for Climate-related Disclosures* (NZ CS 3). We are proposing this for a number of reasons:

- for future proofing — a separate general requirements standard would make it easier for us to add another climate standard to the suite (should the need arise);
- to allow us to keep NZ CS 1 concise — NZ CS 1 will only contain the disclosures for the four thematic areas of TCFD;
- to allow us to add more explanatory type paragraphs in NZ CS 3; and
- to give us the option to amend the general requirements as reporting matures.

In the October consultation document, we proposed developing an authoritative notice; *Aotearoa New Zealand Climate-related Disclosure Concepts* (CRDC). Concepts documents/conceptual frameworks are developed by standard setters to:

- assist standard setters to develop standards that are based on consistent concepts (i.e. to inform standard setting);
- assist preparers to enable consistent reporting practices where no standard applies; and
- assist all parties to understand and interpret the Standards

Rather than develop a separate concepts document at this time we are proposing to incorporate the necessary concepts needed by preparers to apply Aotearoa Climate-related Standards into NZ CS 3. This decision also acknowledges the XRB's project on wider ESG matters. The TRWG have taken a similar approach to this, including relevant materials in the General Requirements Prototype noting that, initially, ISSB conceptual guidelines may not be in place for sustainability reporting. The TRWG have recommended to the ISSB that, at a later stage, the ISSB develop the conceptual guidelines into a full conceptual framework.

The proposed key content of NZ CS 3 is shown in Table 10 below.

Table 10: Proposed key content of NZ CS 3

Section	Proposed key content (not an exhaustive list)
Materiality	An entity will be required to disclose all material information about its climate-related risks and opportunities. This section will include a definition of material information and requirements/explanatory paragraphs in relation to materiality judgements.
Reporting entity and reporting period	Except as otherwise required by legislation, an entity will be required to present climate-related disclosures for the same reporting entity and reporting period as the financial statements.
Comparative information and consistency of reporting	This section will include requirements: • to report comparative information (for both amounts and narrative and descriptive information); and • to report information consistently.
Presentation/cross-referencing	This section will include requirements in relation to presentation, including the ability of an entity to cross-reference to other information.
Fair presentation	Requirements in relation to fair presentation. Fair presentation requires the faithful representation of climate-related risks and opportunities. Entities will be required to disclose information that is relevant, reliable, comparable and understandable.
Reporting framework	Statutory basis under which the climate statement has been prepared.
Statement of compliance	Requirement to state compliance with Aotearoa New Zealand Climate Standards.
Qualitative characteristics of useful information	Relevance, faithful representation (information being complete, neutral and free from error), comparability, verifiability, timeliness and understandability. (See also The TCFD Fundamental Principles for Effective Disclosure).

9.2. Materiality: Proposed section

Materiality involves a user and purpose-based judgement about what information is relevant—whether providing or withholding information is likely to influence primary users' decision making. Materiality is based on the nature or magnitude, or both, of the items to which the information relates. For example, sometimes information may not be material by magnitude (for example, processes are absent, or GHG emissions are very small), but they may be material by their nature. By this we mean that the very absence of processes, or the fact that the GHG emissions are very small, may be material information for a primary user's decision making.

The intent of the materiality section of NZ CS 3 is to provide requirements and guidance for entities when applying the concept of materiality to climate-related disclosures. Note that defined terms are shown in *italics*.

Table 11: Proposed Materiality section of NZ CS 3

Requirements	1. An entity must disclose all *material* information about its climate-related risks and opportunities as required by Aotearoa New Zealand Climate Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's *enterprise value* across all time horizons, including the long term. 2. Assessing whether information could reasonably be expected to influence decisions made by primary users requires an entity to consider the characteristics of those users while also considering the entity's own circumstances. 3. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates. This [draft] Standard does not specify a uniform quantitative threshold for materiality or predetermine what would be material in a particular situation. 4. The application of the disclosure requirements in Aotearoa New Zealand Climate Standards are presumed to result in material information in most cases. However, if when applying the disclosure requirements to its own specific facts and circumstances, an entity determines that the resulting information is not material, it need not disclose it. If the entity makes such a determination, yet primary users may reasonably expect disclosure, an explanation or alternative item of information may need to be disclosed. 5. An entity must also consider whether to provide additional information not specified by Aotearoa New Zealand Climate Standards if that information is necessary for primary users to understand the impact of climate-related risks and opportunities on an entity's enterprise value across all time horizons, including in the long term. 6. An entity assesses whether information, either individually or in combination with other information, is material in the context of its *climate statement* taken as a whole. 7. An entity must apply judgement to identify the information about climate-related risks and opportunities that is material to an entity's circumstances at each reporting date. Because an entity's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances. 8. The application of judgement in assessing whether information is material involves both quantitative and qualitative considerations. It is recognised that a quantitative assessment is not always possible. 9. An entity ordinarily assesses whether information is quantitatively material by considering the size of the impact against measures of the entity's financial position, financial performance and cash flows, as these can impact an assessment of enterprise value. For example, the potential impact of increases in revenue from new products or services from climate-related opportunities or the potential impact of cost increases from new regulatory requirements on an entity's financial performance may be of such a size it could reasonably be expected to influence decisions that primary users make on the basis of that information.

Requirements

10. In some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of its size—a quantitative threshold could be material even if it is very small or zero. For example, GHG emissions may be seen as a proxy for an entity's exposure to transition risk, and hence be expected to influence an entity's primary users' decisions regardless of the size of those emissions. Another example is that in some circumstances the lack of processes could be material information (such as, if a board does not have any reporting processes in place to ensure that it is informed about climate-related risks and opportunities).

11. An entity must consider the context in which it operates when making materiality judgements. Characteristics of the entity's context include, but are not limited to, the entity's geographical location, its industry sector, or the state of the economy or economies in which the entity operates. Entities operating in the same context might share a number of these qualitative factors. Moreover, these qualitative factors could remain constant over time or could vary. In some circumstances, if an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.

12. Material information could include, but is not limited to, information about an entity's impacts on the climate, if those impacts could reasonably be expected to affect the entity's enterprise value. For example, if an entity has a negative impact on climate change, this may negatively impact its enterprise value due to subsequent regulatory action or social pressure.

13. Aotearoa New Zealand Climate Standards require some forward-looking information relating to possible future events that have uncertain impacts on the entity's enterprise value. In judging whether information about such possible future events is material, an entity must consider:

    (a) the potential effects of the events on entity's enterprise value, including the long term; and

    (b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

14. When considering possible outcomes, an entity must consider all relevant facts and circumstances, and consider information about low-probability and high-impact outcomes, which when aggregated, could become material. For example, an entity might be exposed to several climate-related risks, each of which could cause the same type of disruption—such as disruptions to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

Table 12: Proposed defined terms – Materiality section of NZ CS 3

climate statement	(For the purposes of this Standard) has the same meaning as "climate statements" as defined in the Financial Reporting Act 2013. Climate statements, in relation to a reporting entity and a balance date, means the climate-related disclosures for the entity as at the balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of the entity by an applicable climate standard [Section 5(1) Financial Reporting Act 2013]
enterprise value	Market capitalisation of an entity plus the market value of the entity's net debt. It is determined by capital market participants, based on their estimation of the amount, timing and certainty of future cash flows spanning the short, medium and long term. Enterprise value reflects primary users' assessments of future cash flows, including the value attributed to those cash flows by primary users. Essential inputs in determining enterprise value include corporate reporting in financial statements, as well as reporting on climate-related risks and climate-related opportunities that are reasonably likely to affect the entity's business model over time (that is to say, affect revenue, costs, assets, liabilities, cost of capital and/or risk profile). The term captures the notion of expected value creation, preservation, or erosion over time for an entity's equity and debt investors. This expected value creation, preservation or erosion is distinct from but fundamentally interdependent with an entity's creation, preservation, or erosion of value for its stakeholders.
material	Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term.

9.3. Materiality: Key decisions

9.3.1. Definition of material

The XRB received several comments in response to the Governance and Risk Management consultation document on the topic of materiality. Some respondents requested the XRB consider defining material using a 'double materiality' lens. As one respondent summarised, "a double materiality lens requires an assessment of both inwards and outwards impacts (i.e. not only the material impact of climate change on the entity itself, but also the entity's material impact on climate change)".

Different jurisdictions and frameworks emphasise different approaches to materiality. For example, double materiality is a prevalent concept in European environmental policy, but does not feature overtly in the TCFD framework.

How materiality is defined affects the development of disclosure requirements by standard setters. It also interacts with the definition of primary users, as different sets of primary users will consider different information material.

The XRB are proposing to define materiality using the lens of enterprise value, that is focusing on information about climate-related risks and opportunities that could reasonably be expected to influence decisions by primary users about assessments of an entity's enterprise value across all time horizons, including the long term.

This decision aligns with the TCFD framework and the recommendations of the TRWG to the ISSB, and also recognises that this is a new mandatory regime which represents a significant step forward for many CREs. We are working hard to get this regime in place according to our intended timeframes and consider this to be a pragmatic solution that is appropriate for this stage in Aotearoa New Zealand's climate reporting journey. We consider this approach sets a solid foundation that we can build upon, which may include double materiality in the future. We are aware that adopting a double materiality approach would require us to apply a different lens when deciding what disclosure requirements should be included in standards, and who the primary users may be.

At this point, however, it is important to acknowledge that the enterprise value lens also includes any impacts that the entity may have on climate change that circle back to have a subsequent impact on the entity's enterprise value. For example, if an entity has a significant negative impact on climate change, this may negatively impact its enterprise value due to subsequent regulatory action or social pressure. In the TCFD framework (and in NZ CS 1), disclosures such as GHG emissions information are material in this way. This is because GHG emissions can be understood as an indicator of an entity's risk profile, i.e., as a proxy for exposure to transition risk, that can then feed back into an assessment of that entity's enterprise value.

9.3.2. Materiality judgements

Materiality judgements will vary for each entity and all disclosures are subject to materiality judgements.

The XRB decided to develop disclosure objectives in NZ CS 1 for each of the four thematic areas. The disclosure objectives are to assist entities when making materiality judgements so that relevant material information is provided to primary users. It is also important to note that while the requirements in NZ CS 1 are a starting point for identifying material information, an entity considers its primary users' information needs to identify any additional information it may need to disclose. This is outlined in the explanatory paragraph for each section of the disclosures.

9.3.3. Guidance

The XRB decided to include more explanatory type paragraphs and examples in the proposed materiality section to assist entities in making materiality judgements. This means that we consider that additional guidance on materiality will not be required.

Questions to consider:

14. The XRB has proposed a definition of material *(Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term)*. Do you agree with this definition? Why or why not?

15. Do you have any other comments on the proposed materiality section?

10.

Summary of questions

1) Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?

a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? 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 between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?

2) Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?

3) Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a 'greater than 2°C scenario'? Why or why not?

4) We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?

5) Do you have any views on the defined terms as they are currently proposed?

6) The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:

a) Do you agree with the proposed first-time adoption provisions? Why or why not?

b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.

c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

7) Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?

a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? 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 between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?

8) We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?

9) We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?

10) Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?

11) Do you have any views on the defined terms as they are currently proposed?

12) The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?

13) The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?

14) The XRB has proposed a definition of material ***(Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term).*** Do you agree with this definition? Why or why not?

15) Do you have any other comments on the proposed materiality section?

11.

Glossary

COP26	The 26th United Nations Climate Change Conference of the Parties
ESG	Environmental, social and governance matters
GHG	Greenhouse gas(es)
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards Foundation
ISSB	International Sustainability Standards Board
NZ CS 1	Aotearoa New Zealand Climate-related Disclosures Standard 1: *Climate-related Disclosures*
NZ CS 2	Aotearoa New Zealand Climate-related Disclosures Standard 2: *First-time Adoption of Aotearoa New Zealand Climate Standards*
NZ CS 3	Aotearoa New Zealand Climate-related Disclosures Standard 3: *General Requirements for disclosure of climate-related information*
RCP	Representative Concentration Pathway
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosures
TRWG	Technical Readiness Working Group of the IFRS Foundation
XRB	External Reporting Board

12.

References

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The XRB has referenced the following publications in the development of the proposed Strategy, and Metrics and Targets sections of NZ CS 1.

TCFD publications:

- TCFD. 2017. Final report: Recommendations of the Taskforce on Climate-related Financial Disclosures, https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf
- TCFD. 2017. The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities, https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf
- TCFD. 2021. Guidance on Metrics, Targets and Transition Plans, https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf
- TCFD. 2020. Guidance on Scenario Analysis for Non-Financial Companies, https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf
- TCFD. 2021. Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures, https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf

Other publications:

- CDP. 2021. Climate change 2021 questionnaire, https://www.cdp.net/en/guidance/guidance-for-companies
- European Financial Reporting Advisory Group. 2020. 'Climate standard prototype' working paper, https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520PTF-ESRS%2520Climate%2520standard%2520prototype%2520working%2520paper.pdf
- European Union. 2019. Guidelines on reporting climate-related information, https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf
- GHG Protocol. Corporate Standard https://ghgprotocol.org/corporate-standard
- GHG Protocol. Corporate Value Chain (Scope 3) Standard, https://ghgprotocol.org/standards/scope-3-standard
- GRI. 2021 305: Emissions 2016 https://www.globalreporting.org/standards/media/1012/gri-305-emissions-2016.pdf
- International Financial Reporting Standards Board Technical Readiness Working Group. 2021. Climate-related Disclosures Prototype, https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf
- International Financial Reporting Standards Board Technical Readiness Working Group. 2021. General Requirements for Disclosure of Sustainability-related Financial Information Prototype https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-general-requirements-prototype.pdf
- International Financial Reporting Standards Board Technical Readiness Working Group. 2021. Climate-related Disclosures Prototype Supplement: Technical Protocols for Disclosure Requirements https://www.ifrs.org/content/dam/ifrs/groups/trwg/climate-related-disclosures-prototype-technical-protocols-supplement.pdf
- SASB Standards Application Guidance, version 2018-10, https://www.sasb.org/wp-content/uploads/2018/11/SASB-Standards-Application-Guidance-2018-10.pdf

Annex 1: TCFD industry-specific metrics

Table 12 summarises industry-specific metrics provided in the TCFD Supplemental Guidance for the Financial Sector and Non-Financial Groups.[33]

Table 13: TCFD industry-specific metrics

Sector (per TCFD)	Metrics
Agriculture, food and forest products	Potential metrics include total water withdrawn and total water consumed, percent of water withdrawn and consumed in regions with high or extremely high baseline water stress, emissions from biological processes, changes in carbon stocks as a result of land use, and land use changes
Asset managers	Describe metrics used to assess climate-related risks and opportunities in each product or investment strategy Provide metrics considered in investment decisions and monitoring Describe the extent to which their assets under management and products and investment strategies are aligned with a 1.5 degree scenario
Asset owners	Describe metrics used to assess climate-related risks and opportunities in each fund or investment strategy Provide metrics considered in investment decisions and monitoring Describe the extent to which assets they own and their funds and investment strategies are aligned with a 1.5 degree scenario
Banks	Credit exposure, equity and debt holdings, or trading positions, broken down by: industry, geography, credit quality and average tenor Amount and percentage of carbon-related assets relative to total assets Amount of lending and other financing connected with climate-related opportunities Describe the extent to which their lending and other financial intermediary business activities are aligned with a 1.5 degree scenario
Energy	Potential metrics include percent of water withdrawn in regions with high baseline water stress and amount of gross global scope 1 emissions from (1) combustion, (2) flared hydrocarbons, (3) process emissions, (4) directly vented releases, and (5) fugitive emissions/leaks
Insurance	Aggregated risk exposure to weather-related catastrophes of their property business by relevant jurisdiction Describe the extent to which their insurance underwriting activities are aligned with a 1.5 degree scenario

33 See section D and section E of the annex to this guidance.

Sector (per TCFD)	Metrics
Materials and buildings	Potential metrics include building energy intensity by area, building water intensity (by occupants or square area), percent of fresh water withdrawn in regions with high or extremely high baseline water stress, and area of buildings, plants, or properties located in designated flood hazard areas
Transportation	Potential metrics include sales weighted average fleet fuel economy by region and weight/number of people transported, Energy Efficiency Design Index (EEDI) for new ships, life cycle reporting of GHG emissions of transportation products (air, ship, rail, truck, auto)

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