28 April 2022

External Reporting Board

PO Box 11250

Manners Street Central

Wellington 6142

Dear April,

Thank you for the opportunity to submit feedback to you draft standards. This is a joint submission from James Hughes, Emma Singh, and Anita Holmes (in our personal capacities and not an official submissions from our employer). It is a pleasure to provide you with feedback on the proposed Strategy, and Metrics and Targets section of the Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1). See below for background on our expertise and for our responsesto the questions in the consultation documents.

1 Background

We have extensive experience delivering climate change risk asssessments and assisting cilents with their climate change strategies.

James Hughes has worked in infrastructure, environmental, and climate change areas for 20 years. He was recently involved in the development of climate risk assessment guidlines for the Ministry for the Environment (MfE) and was part of MfE's Climate Change Adaptation Technical Working Group during 2018.

Emma Singh has over 10 year's global experience in delivering cliamte and multi-hazard risk assessments. Her experience includes quantification and optimisation of insurable risk, catastophe modelling, modelling critical inrastructure disruption and volcanic risk.

Anita Holmes has experience in strategy and policy development and analysis, leading initiatives to reduce emissions from process heat to support wider energy and industry component of the national Emissions Reduction Plan and supporting the development of Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan.

2 Question in the consultation document

2.1 Strategy

1	Do you think the proposed Strategy section of the NZ CS1 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?

- In regard to a) above, given emerging nature of this area, and the alignment with international practice the answer would be yes. Time will tell as to the usefulness and whether information is actually decision-relevant.
- In regard to b), some of the terms and appraoches referenced are new and emerging and there will be a lot of varying interpretations. For example, implemeting 'appropriate-scale' scenario analysis, and how this integrates with risk assessments etc. Again, given this is emerging practice internationally and the standard is generally aligned, then this is hard to avoid. Some specific comments are made below however.
    - The standard focuses heavily on scenario development / assessment, but is lighter on risk assessment. The disclosure of physical and transition risks is a key part and we wonder if this could be emphasised more in an introduction to section 6.5.
    - The standard talks about 'evaluating the resilience of a business model and strategy through scenario analysis', but it is unclear what this might consist of.
    - In terms of the drive for comparability, it may be worth considering if this should focus more on comparability of risks (related to scenarios specified/chosen/developed?) as opposed to the scenario methodologies and processes.

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

- Yes – this would provide helpful reference and context for users.

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?

- If comparability is sought, then consistency with RCP assumptions and time horizons would help with this. The latest IPCC AR6 mentions as follows: *"All-in-all, this means that high-end scenarios have become considerably less likely since AR5 but cannot be ruled out. It is important to realize that RCP8.5 and SSP5-8.5 do not represent a typical 'business-as-usual' projection but are only useful as high-end, high-risk scenarios. Reference emission scenarios (without additional climate policy) typically end up in C5-C7 categories included in this assessment".* Refer box below.

Box 3.3 The likelihood of high-end emission scenarios

At the time the Representative Concentration Pathways (RCPs) were published, they included 3 scenarios that could represent emission developments in the absence of climate policy: RCP4.5, RCP6 and RCP8.5, described as, respectively, low, medium and high-end scenarios in the absence of strong climate policy (van Vuuren et al. 2011). RCP8.5 was described as representative of the top 5% scenarios in the literature. The SSPs-based set of scenarios covered the RCP forcing levels adding a new low scenario (at 1.9 W/m2). Hausfather and Peters (2020) pointed out that since 2011, the rapid development of renewable energy technologies and emerging climate policy have made it considerably less likely that emissions could end up as high as RCP8.5. Still, emission trends in developing countries track RCP8.5 Pedersen et al. (2020), and high land-use emissions could imply that emissions would continue to do so in the future, even at the global scale (Schwalm et al. 2020). Other factors resulting in high emissions include higher population or economic growth as included in the SSPs (see subsection 3.3.1) or rapid development of new energy services. Climate projections of RCP8.5 can also result from strong feedbacks of climate change on (natural) emission sources and high climate sensitivity (see WGI Chapter 7), and therefore their median climate impacts might also materialise while following a lower emission path (e.g., Hausfather and Betts (2020)). The discussion also relates to a more fundamental discussion on assigning likelihoods to scenarios, which is extremely difficult given the deep uncertainty and direct relationship with human choice. However, it would help to appreciate certain projections (e.g., Ho et al. (2019)). All-in-all, this means that high-end scenarios have become considerably less likely since AR5 but cannot be ruled out. It is important to realize that RCP8.5 and SSP5-8.5 do not represent a typical 'business-as-usual projection but are only useful as high-end, high-risk scenarios. Reference emission scenarios (without additional climate policy) typically end up in C5-C7 categories included in this assessment.

- 'Scenario assessment' relies on developing plausible / outlier futures, and stress testing – which means that RCP 8.5 would conceivably/logically need to be included.
- Temperature scenarios and time horizons to be used can be modified within the Standard over time as science changes.
- If you are prescribing a 1.5 degree scenario, this is also now potentially an 'outlier', as per IPCC AR6 – emphasising the scale (*massive* task) of reductions required: "*In pathways that limit warming to 1.5°C (>50%) with no or limited overshoot global net CO2 emissions are reduced compared to modelled 2019 emissions by 48% [36–69%] in 2030 and by 80% [61-109%] in 2040; and global CH4 emissions are reduced by 34% [21–57%] in 2030 and 44% [31-63%] in 2040.*"
- Therefore if you are specifying RCP 1.5, you could justify RCP 8.5.
- It is therefore, recommended to use high end RCP 8.5 and also RCP 4.5 (or equivalent)

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?

- Entities should clearly set out their targets and roadmaps for transition, how this relates to relevant policies drivers (transition risks) at a national and global level, and what residual risks may remain if their transition plan is unaligned.

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

- I think the separation into 'actual and potential' risks/opportunities is a bit confusing. I think the sections could be combined, but making specific reference to the need to highlight any current (actual) risks/opportunities. This would make the disclosure process easier and more straightforward to interpret. The TRWG wording is preferred in this regard.
- 'Resilience' (of business model) needs further thought. The concept is unclear (how do you 'do' a resilience assessment?), as well as the specific terms mentioned: e.g. vulnerability has been defined by IPCC as 'sensitivity and adaptive capacity' (i.e. excluding exposure). Combining all three, is better termed 'risk'. Adding preparedness (strategic planning and

adaptive capacity) is confusing. This doubles up with terms, and they are very hard to define and understand. Suggest this needs a rethink. One idea would be to look at organisational resilience metrics (refer ResOrgs work, or we can link some papers).

- Impacts: easily conflate/confuse with risks and opportunities. They could be thought as the magnitude of the risk/opportunity, or the 'consequences of risks'. Also, consier adding the word *hazard* in the impact section – as this differentiates the climate hazard from a risk.

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?

- Quantitative analysis of financial impacts is complex, so should be deferred, and also guidance provided as to what this may involve.
- Adaptation plan – agree. Note the text mentioned 'phsyical and transtion risks', but maybe should only read physical here.

2.2 Metric and Targets

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?

- Specifying the amount / percentage of vulnerability to transition risks will be very difficult. Needs thought regarding methods. Also – suggest 'vulnerability' could be replaced with 'exposure'. What does vulnerability mean in this context?
- Specifying amount/percentage of asstes vulnerable to phsyical risks will also be difficult, given availability/usefulness of vulnerability/fragility functions. Could consider requiring an exposure assessment only (e.g. value exposed).
- Climate-related opportunities – I am not sure how this will be done in practice.
- Scope 3 emissions is ambitious. But agree it is important.

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?

- I think this could be developed over time, and will add real value to the disclosures. I think in the first instances, directing preparers to the relevant reference documents, and then potentially updating the standard later.

Questions 9-15 have not been answered.

We are happy to discuss any of the above.

Yours sincerely,

James Hughes, Emma Singh and Anita Holmes

Contact:

James Hughes
+64 21 457 792
Jhughes@tonkintaylor.co.nz