

AOTEAROA NEW ZEALAND CLIMATE STANDARD 1: CLIMATE-RELATED DISCLOSURES

TOITŪ ENVIROCARE SUBMISSION

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TABLE OF CONTENTS

Introduction	3
1 Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?	3
2 Do you agree that a standalone disclosure describing the entity’s business model and strategy is necessary? Why or why not?	4
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
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?	4
5 Do you have any views on the defined terms as they are currently proposed?	5
6 The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:	5
7 Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?	6
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?	6
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?	7
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?	7
11 Do you have any views on the defined terms as they are currently proposed?	7
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?	8
13 The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?	8
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?	8
15 Do you have any other comments on the proposed materiality section?	8

INTRODUCTION

Toitū Envirocare leads positive change through a system of science based environmental programmes. We are a team of scientists and business experts who have come together to protect the ecological and economic future of this place, catalysing action for a zero-carbon future.

Based on science and backed by evidence, our Toitū carbonreduce, Toitū net carbonzero, Toitū climate positive and Toitū enviromark certification programmes give organisations the tools to reduce their carbon emissions and environmental impact. We also help with setting science-based targets, scope and boundary assessments, value chain screening, and carbon inventory verifications. Initially developed for New Zealand business needs, our programmes now serve more than 400 clients worldwide. Wholly owned by Manaaki Whenua – Landcare Research, a Crown Research Institute, our origins are in science, but our future is in the sustainability of our economy, our people, and our land.

Since 2019 Toitū Envirocare has been a Certified B Corporation®. We are committed to being a business that not only acts as a power for good but does no harm. Through our impact business model, we empower other organisations to improve environmental performance, but within our own business we have taken specific steps to ensure we are improving our performance. So far, we have scored particularly well on customer and staff care. We aim to improve our scores at every future certification. We are also active in the B Corp Community working on supporting other B Corps to take meaningful, science-based climate action.

1 DO YOU THINK THE PROPOSED STRATEGY SECTION OF NZ CS 1 MEETS PRIMARY USER NEEDS?

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.

Yes, this is useful to ensure a holistic approach to business strategy that includes climate risk and opportunity.

XRB could consider whether it is feasible to make examples of scenario analyses accessible to reporting entities where available (e.g. sectoral approaches) – they are typically expensive and complex to produce and may be better developed at a sectoral level. This would support smaller companies to report well when included in the reporting requirements in future.

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?

Worked examples or similar guidance could be useful. The level of information currently provided is likely to be sufficient for larger entities that are initially required to report (which are likely to have dedicated climate/sustainability resource available to them), but smaller entities reporting in future may need more guidance. It may also be worth considering representation/skills at board level within organisations of different sizes.

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?

We believe that this section is suitably comprehensive and not overly prescriptive. However, provision of further guidance may enable improved consistency and quality of reporting.

2 DO YOU AGREE THAT A STANDALONE DISCLOSURE DESCRIBING THE ENTITY'S BUSINESS MODEL AND STRATEGY IS NECESSARY? WHY OR WHY NOT?

We agree that it is useful for primary users to be able to find information regarding these matters, as this ensures clarity about the business model and strategy in the context of the climate risks that the business faces. It is appropriate that this may be achieved through cross reference to existing reports such as integrated or sustainability reports, as this approach may result in improved integrated reporting by businesses.

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?

We agree that it is not necessary (or necessarily beneficial) to prescribe which >2 degree scenarios should be modelled. Flexibility encourages businesses to think about 'what happens when climate change becomes significant' without prescribing the level of climate change. This reflects the uncertainty that currently exists regarding the actual level of climate change we will experience. We believe that businesses should be thinking broadly about climate risks for various levels of climate change but recognise that requiring more than 2 scenarios to be fully modelled is likely to be overly onerous.

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?

The goal of mandatory climate-related disclosures is to:

- ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions
- help climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues
- lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.¹

MfE states that '*Mandatory climate-related disclosures will help New Zealand meet its international obligations and achieve its target of net zero carbon by 2050*', indicating that there is strong alignment between climate risk and science aligned mitigation of emissions.

¹ [Mandatory climate-related disclosures | Ministry for the Environment](#)

Given that there is an intent for this reporting to encourage businesses to understand impacts on their business of climate change (and vice versa) and prepare for climate change, we recommend that this guidance encourages ambitious action such as science aligned reduction targets. Additionally, we recommend that direction or guidance is provided to reporters regarding expectation of rigour on target setting to avoid the risk of loose and incomplete coverage of the targets e.g. Scope 1 and 2 only, selected Scope 3, or subsets thereof. For net zero long term, the importance of full value chain reductions, plus near term target action should be emphasised. We recommend that the Science Based Targets Initiative (SBTi) be used as the recommended option for aligning targets as being science based and aligned to 1.5 degrees AND net zero. SBTi has developed sector pathways for a number of sectors that are important to the NZ economy. Further, we recommend that the guidance emphasises that targets need to be a combination of both near term AND long term net zero in order to mitigate the most serious climate change impacts.

While NZ's targets should be considered, the more important issue is how global climate change impacts can be mitigated, so alignment with international climate science should also be considered. SBTs and other global initiatives should be encouraged. In our experience, there may be challenges for businesses to align to net zero targets within the Climate Change Response Act due to complexities around 'Net' accounting – additional guidance may be required.

This aligns with international approaches such as the United Kingdom's announcement in November 2021 that the UK will be the first [Net Zero aligned Financial Centre](#).

5 DO YOU HAVE ANY VIEWS ON THE DEFINED TERMS AS THEY ARE CURRENTLY PROPOSED?

We agree with the defined terms. As enterprise value is included in the definition of materiality, we recommend that this is included in the defined terms.

We recommend that the defined term for gross emissions be split and that separate defined terms be included for Scope 2 gross (location based emissions) and removals.

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?

Yes, we agree with the proposed first-time adoption provisions. These reflect both the urgency and the complexity associated with development of suitably detailed plans for transition and adaptation. They also reflect the benefit of starting with qualitative approaches and moving toward quantitative approaches as better information becomes available.

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.

We have not identified other areas where first-time adoption relief should be provided.

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

N/A

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.**

Yes, we think that this information will be useful. We also recommend that the standard state that the boundaries of the reported GHG emissions should be clearly stated (including geographic boundaries)

- 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?**

Yes the standard is clear and unambiguous. We recommend that the standard make provision for organisations that are reporting their emissions in accordance with ISO 14064-1:2018, which uses slightly different terminology for grouping emissions. Rather than three Scopes, ISO 14064-1:2018 uses six Categories (with subcategories under each category). These categories can be easily mapped to the three scopes, but direct reporting under ISO 14064-1:2018 categories could be provided as an option for ease of reporting.

- 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?**

Yes we agree that the balance is appropriate.

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?

We believe that the suggested approach is reasonable provided the guidance includes some form of key principles or a search hierarchy (or both) for users to follow to ensure that when reporters look for industry-specific metrics they can decide on the most appropriate industry metrics for their business. Reporting organisations should ensure that they understand what industry metrics exist for their sector and use the most appropriate metrics – guidance about where they might be found and some examples would be beneficial. There is a risk that leaving it up to the reporting entities to decide which metrics are most appropriate for their business will result in a range of different metrics being chosen by entities in the same industry/sector, making comparability difficult. If metrics are chosen by the reporting entities as opposed to the XRB providing a list of metrics by industry, XRB could consider requiring disclosure of how the metrics were set (or where the reporting entity obtained it from). It is important to understand if the metrics are in line with similar entities and where the reporting entity have deviated from industry standards. This will help to prevent entities from using metrics to support a predetermined outcome and provide more transparency

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?

In our experience, challenges in developing full value chain emissions inventories are likely to be:

- Access to suitable calculation methodologies
- Access to suitable emissions factors

There are likely to be limitations in accuracy and some gaps, but most organisations should be able to estimate emissions for their value chain. It would be helpful to provide clear guidance and emphasis on improving data specificity over time e.g., going from \$ spend estimates to supplier specific (or equivalent) calculations, via supply chain engagement. This is in keeping with the lead practice trends globally.

Encouraging and recognising supplier measurement and management programmes (such as Toitū carbon programmes and the Toitū carbon assess tool) would be beneficial in encouraging use of high-quality emissions information rather than estimates.

This reporting could play an important role in identifying trends in where reporting entities are finding impediments, and then signalling or commissioning work in those areas to build suitable datasets. An example globally is how PCAF responded to the need for financial institutions to have access to a big database of building EFs for estimating the emissions in their real estate investment/loan book portfolios.

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?

This is broadly aligned with ISO reporting requirements – we agree with this approach provided that there is no significant additional administration associated with organisations that also reporting to other GHG programmes based on ISO 14064-1:2018.

11 DO YOU HAVE ANY VIEWS ON THE DEFINED TERMS AS THEY ARE CURRENTLY PROPOSED?

We have no specific concerns with definitions provided; however, we note that all definitions are based on GHG Protocol. Rather than three Scopes, ISO 14064-1:2018 uses six Categories (with subcategories under each category). The GHG Protocol also provides recommended sub-categories under their Scope 3 Guidance. We recommend that XRB considers reviewing definitions in ISO 14064-1:2018, particularly

with respect to emissions categories, as additional specificity may be more meaningful to users in considering their value chain emissions.

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?

Yes, Toitū would encourage entities to obtain the greatest level of assurance possible. In our experience reasonable assurance over Scope 1 and Scope 2 is achievable. Limited assurance for scope 3 value chain emissions for initial reporting is likely to be hard to achieve.

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?

We agree with the definition of materiality being that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make based on their assessments of an entity's enterprise value. We agree with including the longer-term time horizon, but feel that more guidance would be needed to ensure this is applied consistently as assessments/scenarios can change over time meaning that something previously deemed as immaterial could become material.

15 DO YOU HAVE ANY OTHER COMMENTS ON THE PROPOSED MATERIALITY SECTION?

Practically, the materiality definition would be challenging to apply and comply with. More guidance is recommended to ensure consistency and how this is applied across the standard as a whole. This guidance should include examples of items to consider as part of the consideration of qualitative materiality. There are recommended materiality thresholds included in the GHG Protocol that are based on a percentage of total emissions and these should be considered in the definition of materiality for the assurance over the GHG emissions. We have received client feedback that a definition of "primary users" needs to be added. This is a key consideration when setting materiality for financial statement audit purposes. These definitions might be different as the primary users of the climate statement could be different from the financial statements. This needs a clear definition.