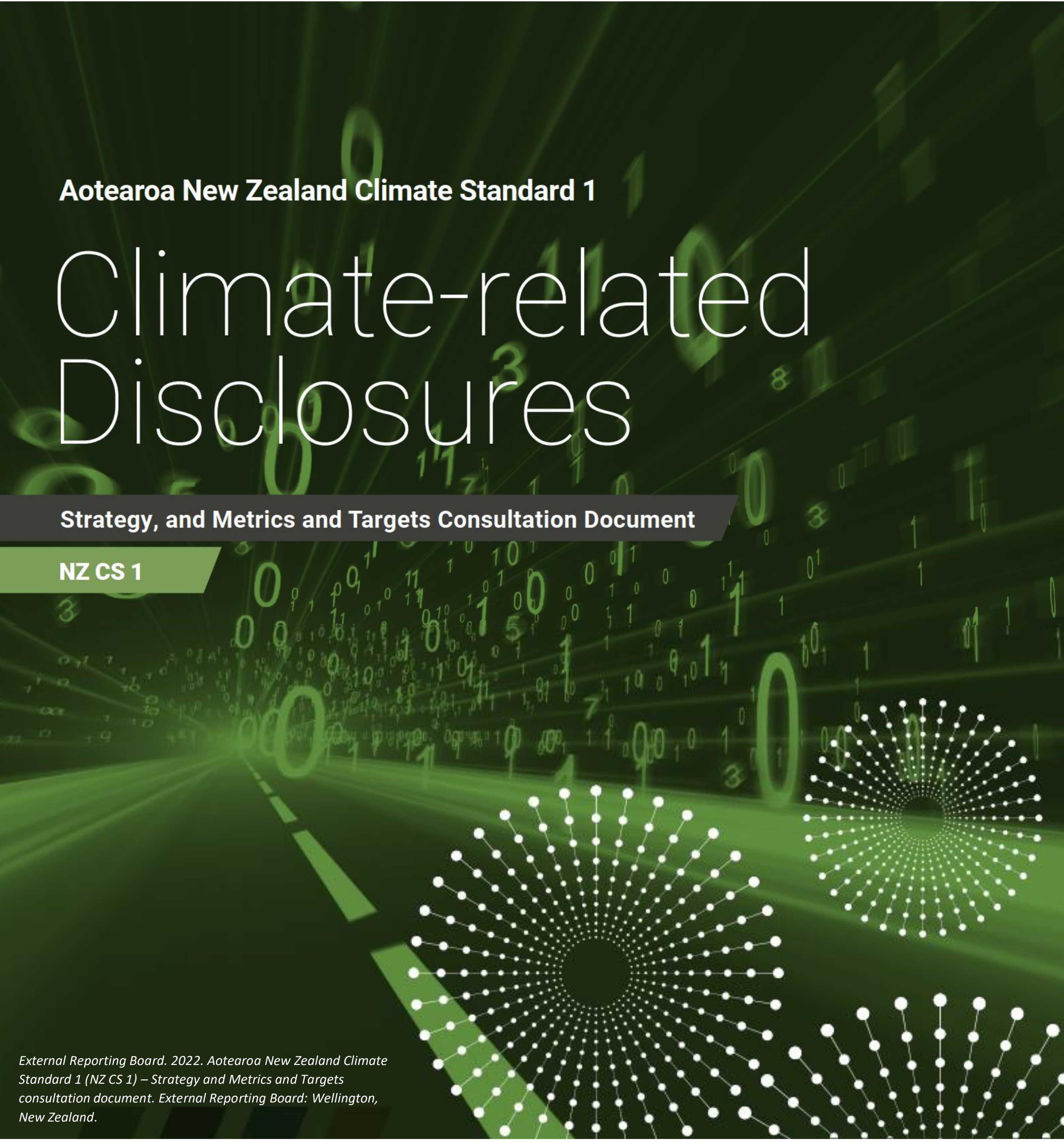

Mainfreight Submission

Climate Related Disclosures: NZCS 1 Strategy, and Metrics and Targets

4 April 2022

Mainfreight General Comments

Our concern with this recent standards document is the significant pivot to extensive financial metric and impact disclosures beyond what is likely practical and useful particularly for non-financial services CREs.

A cited observation from the TCFD under section 6.5.2 (referencing this work piece from TCFD) looks to have heavily influenced many of the disclosure requirements in this document.

In particular that observation stated "users rate disclosure of financial impacts as very useful…only 20% of preparers disclose such impacts".

The dependency on this statement for much of the disclosures listed is particularly problematic for non-financial services CREs for 2 main reasons:

Bank size fits all?

Of the respondents in that TCFD research **only 10% were Non-Financial Companies** which is in line with much of TCFD's history**.** The financial services slant is not all that significant as a voluntary standard but that changes when the application of the standard is mandatory.

It will likely require non-financial CREs to think and act more like a bank. This could be both intrusive and burdensome without contributing to the goals of the TCFD or Mandatory Climate Related Financial Disclosures. It will also make the standard far less obtainable and appealing for smaller businesses to pursue on a voluntary basis preventing more widespread adoption and broader comparability across these disclosures.

We would recommend a softening of the language around financial impacts and metrics and perhaps a difference in guidance for financial and non-financial CREs.

Numbers in an account vs numbers in the Supply Chain

Referring to the TCFD statement, the perspective of users as to what is 'useful' would assume some degree of validity in the financial impacts disclosed.

For a financial services company predicting financial impacts could be relatively straight forward, a portfolio can be split into different categories based on industry, region etc. The value of that particular category can then be weighted up or down relative to certain scenarios.

From a non-financial services perspective the predictive value in such long range forecasts could well be negligible. For instance if we look at common business forecasting; a highly developed field, typically done for the immediate period ahead and for relatively short time frames…. are notoriously bad at predicting actual outcomes.

So it seems highly optimistic that repurposing the forecasting pursuit to a field business knows little about, and for terms; decades in the future, will yield anything of much value. Supposing it did the calculation and assumptions will likely be near on impossible for any assurance practitioner to verify.

That is not to say we oppose financial metrics or consideration to financial impacts within disclosures. However we feel more work is required to better include non-financial service businesses in the scope of these disclosures.

XRB 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.

As above we feel the current financial impact and metrics will be challenging to apply in a meaningful and comparable way across non-financial service businesses.

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?

*In particular we find reference to **actual** financial impacts of climate related risks and opportunities ambiguous if not directly contradictory. 'Actual' by XRB's own definition (6.2) refers to impacts that have already occurred however most common definitions of risks, risk management and opportunities reflect that these have not occurred (not yet occurred). Interestingly XRB have a specific section in reference to this (6.5.2) however this does not appear to be applied in Strategy disclosures 5.b and 5.c.*

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?

No, as above we feel financial impacts and the relationship to potential risks and opportunities needs further clarification.

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

No, this information is already required in a GHG report and typically included within an annual report both of which should be closely linked to these disclosures. However given that the information is likely already published there is minimal burden in repeating this content here if it is helpful to primary 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?

Yes.

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?

Yes.

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

Minor suggestion, 'resilience' is not in itself climate specific. Either drop 'climate-related' from the first line of the definition or alter the definition name to include the context of climate.

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?

Neutral, subject to softening of financial metrics especially quantitative.

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.

No.

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

NA.

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.

Largely no, for non-financial services businesses as discussed above. The validity of disclosures 4.c. through 4.h are questionable relative to the burden they will impose on CREs in their current form.

A more general assessment of transition risks, physical risks and opportunities could be addressed possibly on an industry specific basis.

4a and 4b; we support and also welcome the gross emissions perspective.

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.

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?

No, reference to the financial metrics should be softened.

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?

Yes this is a reasonable approach.

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?

No issue, we strongly agree with the inclusion of value chain emissions.

Although scope 3 can undoubtedly be more complex to gather, use of conservative assumptions until such time as the data or calculation can be improved ensures that the emissions source is accounted for and provides an incentive to improve the collection and calculation process.

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?

We agree with the proposed requirements.

One suggestion is that an explanation of (gross) reductions/increases year on year or against a base year could be required (in line with ISO 14064). The risk is that intensity metrics will receive all the focus and the narrative behind gross emissions changes (particularly increases) may be washed over.

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

No.

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?

It appears there is a provision under 7.3 referring to comparative data. It has no requirement for comparative data in the first year but requires 2 years of comparative data along with the current period metric in year 2. This doesn't make much sense, either require 1 year of comparative data in year 1 and 2 years in year 2 or require none in year 1, 1 year of comparative data in year 2 and 2 years of comparative data in year 3 onwards.

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

Yes, but would like to see a commitment to review this with an aim towards reasonable assurance in the future.

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?

A bit of a mouthful but fine.

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

Of the Materiality requirements 13 and 13b seem to (perhaps accidently) overreach.

*"In judging whether information about such possible future events is material, **an entity must consider: … The full range of possible outcomes** and the likelihood of the possible outcomes within that range.*

There are an infinite number of possible outcomes for future scenarios and events. Clearer wording here might be helpful.

Submission Preparation:

By: Shaun Morrow

As: Climate Reporting Lead

For: Mainfreight Limited

On: 4th April 2022

Contact: shaun.morrow@mainfreight.co.nz