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Tēnā koe Amelia,

KPMG – Response to XRB Climate Change Disclosure consultation

Whatungarongaro te tangata, toitū te whenua (as man disappears from sight, the land remains).

KPMG New Zealand's purpose is to fuel the prosperity of Aotearoa New Zealand for the benefit of all New Zealanders. We recognise that how our country responds and adapts to the challenges and opportunities that climate change presents every organisation in Aotearoa New Zealand will shape our future and the outcomes every New Zealander experiences. We consequently welcome the opportunity to provide our response to the Strategy, and Metrics and Targets Consultation Document relating to Aotearoa New Zealand Climate Standard 1.

We are supportive of the objective of the Climate Reporting Standard to provide Climate Reporting Entities (CRE) with a set of mandatory disclosure requirements to ensure consistency in reporting of the impacts that the CREs expect the climate to have on their operations as well as the actions they are taking to mitigate their organisational impact on a warming climate. We recognise the importance of these standards in the context of future disclosure expectations around TNFD (Task force on Nature-related Financial Disclosures), Modern slavery and Diversity pay gap information, to name a few. We provide our responses to each of the consultation questions in the attached appendix. However, we consider that there are some overriding themes underpinning our feedback that we specifically comment on below.

While reporting is important, we believe that encouraging organisations to take proactive climate action has to be the key focus.

The development of the Climate Reporting Standards (the standards) is an important milestone in establishing the infrastructure that will facilitate Aotearoa New Zealand's transition towards a zero-carbon future, however the standards themselves do not create change. There is, in our mind, no question that the standards, if designed appropriately, can encourage organisations to make changes in their business models to transition towards a lower carbon future. This means the standards need to be appropriately balanced, so they are not perceived to be a burdensome compliance exercise, which CRE approach as a box ticking exercise, but are a set of requirements that are able to be easily translated to continuous reporting within organisations and which deliver insight and information that are of use to the organisation and its wider stakeholder group to assess the progress being made to achieve decarbonisation.

This does mean that the most insightful information is required to be disclosed, the information that through disclosure will encourage organisations to make changes in their activities and operations. We strongly support the comprehensive disclosure of Scope 3 indirect emissions as it is in these emissions that the most significant opportunities lie for most organisations to decarbonise their operations. We do however recognise that for many organisations the challenge of quantifying their comprehensive Scope 3 emissions will take time given that many do not yet have such a perspective and therefore the timing of requiring assurance over Scope 3 emissions needs to be carefully considered as reporting should encourage action rather than putting any blocks in the way of progress.

Guidance is critical to ensure the comparability of information presented

The reality facing most CREs is that they do not have deep levels of skill or knowledge in climate science, reporting and decarbonisation and for many they are unlikely to be able to recruit this knowledge, given the cost and availability of such resources. Consequently, much of the reporting required by the standards will be prepared by people that do not have a detailed knowledge and understanding of climate science and, very often, may be members of the CRE's existing financial reporting team. Therefore, we consider it critical that the standards are as clear and unambiguous as possible, with a strong focus on articulating the requirements in plain English in a way that can be interpreted and implemented by informed but not expert people. Based on the information presented in the consultation document we consider that there remains significant work to be done to achieve this goal, however, we do recognise that this may

be achieved through the guidance that is provided alongside the standards and it is critical that this is as comprehensive and industry specific as possible.

While moving first in climate reporting is laudable for Aotearoa New Zealand, we should still be seeking international consistency

The development of these standards by the XRB highlights the priority that the New Zealand Government is placing on setting Aotearoa New Zealand on a track towards a lower carbon future. It is important to recognise that this development is taking place against the development of a range of other initiatives globally, including the work being done by the newly established International Sustainability Standards Board (ISSB) to develop climate reporting standards and recent national reporting initiatives proposed in the United States and European Union. While we acknowledge that this consultation document was developed with reference to the prototype ISSB standard that had been issued, we note that recently issued exposure draft (IFRS S2 Climate Related Disclosures) encompasses a number of significant changes in requirements to the prototype. In some cases, this means the requirements in the standards will be less comprehensive than those that will be required by IFRS S2, while in other areas it leaves New Zealand CREs being faced with more comprehensive reporting requirements. It is our view, that we should be seeking wherever possible to be consistent with international requirements; we should never be seeking less than minimum international requirements, however, and should only be seeking more information in rare circumstances if required because of the legislative framework or it delivers on the needs of stakeholders in New Zealand.

The XRB may want to consider other entities not within scope of the legislation at the current time

We note that under the current legislation the number of organisations that are deemed to be CREs represents only a tiny fraction of the total number of organisations in New Zealand and does not include many large emitters in this country. However, our conversations with many organisations not currently captured by the proposed standards highlight that for a range of reasons (predominately driven by existing stakeholders in their organisations including investors, employers, customers, lenders, regulators, and others) these organisations are likely to make voluntary climate related disclosures. It is our view that the XRB's standards will be seen by these organisations as authoritative guidance to be applied in preparing their disclosures. We consequently would encourage the Board to provide guidance to those organisations seeking to make voluntary climate disclosures on what 'a voluntary climate disclosure report' might include in terms of minimum information. We consider that clear and easily adoptable guidance in this area would assist in wider adoption of climate reporting which ultimately will accelerate Aotearoa New Zealand's journey towards a lower carbon future.

We once again would like to thank you for the opportunity to provide a submission on this consultation document. Please do not hesitate to contact Brent Manning, Ian Proudfoot, or Simon Wilkins (details below) should you wish to discuss our submission further.

Ngā mihi



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Appendix 1 – KPMG responses to the consultation questions

Question	KPMG response
<p>1) Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?</p> <p>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.</p> <p>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?</p> <p>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?</p>	<p>Agreed. The current draft provides a good and useful reference base of strategy related information to be disclosed. We recognise that this section will rely heavily on clear guidance, detailed in subsection 6.4 <i>Strategy: proposed guidance</i>.</p> <p>This is particularly relevant when considering an organisation’s resilience to navigate the impacts of climate change. This guidance should be done at a sector and industry level.</p>
<p>2) Do you agree that a standalone disclosure describing the entity’s business model and strategy is necessary? Why or why not?</p>	<p>Agreed - It is imperative that there is a clear link to the CRE’s climate disclosures from their business model and strategy. This can, where possible, facilitate better comparability across different sectors and industries. The business model should also consider the transformation options in the short, medium, and long term, and not just the ‘status quo’.</p>



Question	KPMG response
<p>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?</p>	<p>Disagreed. We believe that the standards should require a 'greater than 3°C scenario.'</p> <p>Including a higher physical risk scenario is essential to the process of scenario analysis if it is to fulfill its fundamental purpose and meet the needs of primary users.</p>
<p>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?</p>	<p>Agreed. CREs should have the flexibility to set targets they deem achievable and the flexibility to set enhanced targets over time.</p>
<p>5) Do you have any views on the defined terms as they are currently proposed?</p>	<p>The consultation document suggests that 'adaptation plans' should focus on risks and opportunities associated with physical climate changes. In-line with ISO 14090:2019, we believe that 'adaptation plans' should address organisations' priorities including (inter alia) transition-related risks, opportunities, and gaps in adaptive capacity.</p> <p>The consultation document defines a 'strategy' as an entity's desired future state. We believe that a broader definition would be more useful. For example, a strategy might be defined as 'an entity's solution for moving from where it is now to its desired future state. A strategy should set out the preconditions that an entity believes necessary to achieve its purpose and the steps it will take to create those preconditions.</p>
<p>6) The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:</p> <p>a) Do you agree with the proposed first-time adoption provisions? Why or why not?</p> <p>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.</p> <p>c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?</p>	<p>Agreed. People will need time and resources to implement NZ CS 1, and clarity around what will be required in progress updates for the Transition and Adaptation plans.</p>



Question	KPMG response
<p>7) Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?</p> <p>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.</p> <p>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?</p> <p>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?</p>	<p>In general, we consider that the proposed Metric and Targets section of NZ CS 1 will meet primary user needs.</p> <p>Our view is that this section is generally clear and unambiguous. However, we think there should be further guidance around industry specific metrics and targets. Perhaps an appropriate place to disclose this information would be an additional industry-specific guidance that the XRB has indicated it will likely produce.</p> <p>The balance between prescriptiveness and principle-based disclosures is appropriate and will allow organisations to describe their own metrics and targets. We suggest expanding the wording in Section 7.1 to clarify sector and industry specific considerations.</p>
<p>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?</p>	<p>We think there would be value in considering industry specific metrics to enhance comparability. If not required, then we request that the XRB release draft sector guidance in full, for industry consultation, to ensure that it covers all material risks and opportunities that relate to a particular industry. We see this as particularly important, given that the approach to reporting metrics and targets will differ from industry to industry. There should be a clear statement of what are the industry specific material risks and opportunities that companies are required to disclose.</p>



Question	KPMG response
<p>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?</p>	<p>The ease at which Scope 3 value chain emissions can be calculated depends on many internal as well as external factors unique to each organisation and often requires some judgement to balance a desire for accuracy with the required administrative burden. Issues with data availability, data quality, emission factor availability, supply chain cooperation and reliance on proxies due to limited primary data often lead to higher degrees of estimation. However, significant guidance for data collection and calculation of Scope 3 emissions exist and an organisation may choose a combination of calculation methods to overcome some of these challenges. Improvements in the reporting of Scope 3 emissions are often gradual over time. To ensure better reporting and avoid any potential confusion, it would be useful to include guidance related to:</p> <ul style="list-style-type: none">— The calculation methods allowed. A combination of acceptable methods (supplier specific, spend-based, average-data methods) will likely reduce impediments to measuring value chain emissions.— To what extent proxies and extrapolation of data are allowed.— Required supplementary explanation. For example, methods applied (by source/category); information to accompany situations where the emissions totals have been derived from high levels of assumptions and poor data quality; or clarifying information required on the selection of emission factors.



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<p>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?</p>	<p>We acknowledge XRB’s comment and concur from what is already publicly released, that there are multiple existing globally accepted and commonly used GHG emissions measurement and reporting standards (including GHG Protocol and ISO 14064-1). We currently see the use of the GHG Protocol as more common place in the market, given it is more descriptive and discusses, for example, motivational reasons for reporting GHG emissions rather than the short, more direct nature of ISO 14064-1. We would prefer the exclusive use of the GHG protocol on the basis it provides a more principle-based approach to the measurement of GHG inventories.</p> <p>In not proposing to mandate a single approach, we encourage the XRB to consider whether this meets the disclosure objective for metrics and targets to enable primary users to understand how an entity measures and manages its climate-risk related risks and opportunities. We believe there is a risk that CREs of a similar nature do not use the same approach and therefore, consistency and comparability of Scope 3 emissions across CREs is affected.</p> <p>However, we do appreciate CREs may already be reporting under different GHG emissions measurement and reporting standards for different but valid reasons. In addition to the examples planned to be cited in the guidance, we would encourage the XRB to provide clear guidance in relation to the differences between the examples of commonly accepted standards and guidance and offer scenarios in which the different standards and guidance could be most relevant.</p> <p>Regardless of the standard used, the requirement for the CRE to disclose the methodology and assumptions applied should enable the precondition of assurance engagements in respect of suitable criteria under ISAE (NZ) 3000 and ISAE (NZ) 3410 to be met.</p>
<p>11) Do you have any views on the defined terms as they are currently proposed?</p>	<p>We believe that the “sector specific targets” definition needs to be included. It is not clear what is intended to be included within sector & industry specific targets as well as the risks and opportunities.</p>
<p>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?</p>	<p>We concur but recommend including further guidance as per question 9.</p>

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

We have seen the growth of voluntary assurance on GHG emission disclosures in recent years, to meet the increasing demands of stakeholders. We currently provide both limited and reasonable assurance over GHG emissions to a variety of organisations across a range of sectors. We acknowledge that XRB has investigated existing practice in making their proposal with the results showing a broad range of obtaining assurance or not and the standard of that assurance.

For some CREs, the requirement for limited assurance is less than what is currently being obtained as global best practice moves towards reasonable assurance. We acknowledge that the current proposal does not mandate nor prohibit reasonable assurance and that the XRB has stated that *“setting the minimum level of assurance for GHG emissions at limited assurance should be revised after a suitable period of time”*.

At a minimum, we would like to see greater clarity provided by the XRB in relation to what a ‘suitable period of time’ would be.

However, keeping in mind that these are New Zealand’s largest entities, and many are already obtaining some level of assurance, we consider there could also be merit in the XRB considering mandating a different level of required assurance for Scope 1 and 2 (being reasonable assurance) versus Scope 3 emissions (being limited assurance) to further demonstrate best practice by our market leaders.

Whilst we do acknowledge this may provide less clarity to the reader of assurance opinion over the GHG emissions report, the report could include descriptions of procedures performed over each scope of emissions to educate the reader.

Regardless of the level of assurance mandated, CREs will still need to invest time and money into the information systems, methodology and controls necessary to calculate Scope 1, 2 and 3 emissions to ensure the preconditions for assurance are met under ISAE (NZ) 3000 and ISAE (NZ) 3410.

However, we concur and recognise the comments of the TCFD that *“the Task Force recognizes the data and methodological challenges associated with calculating scope 3 GHG emissions”*. This higher level of estimation uncertainty does result in greater work effort from assurance practitioners and,



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	<p>as a result, a higher cost to the CREs, particularly in the earlier years of preparing the GHG emissions report. The incremental work effort and cost for Scope 1 and 2 emissions are expected to be lower than Scope 3, due to less estimation uncertainty.</p> <p>Ultimately, we must keep in mind the aims of the standard, including enabling primary users to understand an entity's gross emissions, both in the reporting year and trends over time, and providing transparency and accountability to stakeholders.</p> <p>Therefore, we consider that with the already evolving demands of stakeholders whilst taking into consideration cost and benefits, that the XRB should consider defining a suitable time frame for increasing the minimum level for Scope 1 and 2 emissions to reasonable assurance if initially all set at limited assurance.</p>

Question	KPMG response
<p>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?</p>	<p>We note that the XRB has commented that this is a pragmatic solution and that <i>"this approach sets a solid foundation that we can build upon, which may include double materiality in the future."</i></p> <p>We concur that this is a pragmatic solution, with the definition of materiality being investor-focused resulting in consistency with NZ IFRS Accounting Standards.</p> <p>However, we do share concerns that disclosure of information that affects investors' assessments of the company's enterprise value will result in CREs including information only about the company's impact on the economy, the environment or society that could affect its enterprise value, not all potential impacts.</p> <p>Whilst climate reporting is a significant step forward for many CREs, the enterprise-value approach to assessing materiality may also be new to many companies that currently produce sustainability reports to meet wider stakeholder needs.</p> <p>Therefore, we recommend that the XRB should consider incorporating the concept of double materiality into all aspects of NZ CS 1 from commencement, which we consider reflects the prevailing direction of practice internationally.</p>



Question	KPMG response
15) Do you have any other comments on the proposed materiality section?	<p>We note the XRB's intention to include more explanatory type paragraphs and examples in the proposed materiality section to assist entities in making materiality judgements and that this means additional guidance on materiality will not be required. We believe this will be useful in helping CREs to assess materiality.</p> <p>Given the critical role that materiality plays under the proposal, it is important for CREs to get it right despite it being a highly judgmental area. It is also important for the XRB to strike a balance between providing examples and CREs adopting specific guidance material and not adapting it for their own specific circumstances, such as if a quantitative threshold for materiality is provided.</p> <p>However, without having sighted these explanatory type paragraphs and examples it is difficult to conclude on their sufficiency.</p> <p>We also await the revised definition of primary users expected later this year.</p> <p>Nevertheless, particular areas we would like to see further guidance on are the other qualitative considerations that CREs should make given the enterprise value focus of materiality and guidance in relation to assessing materiality based on enterprise value in the longer-term, given the impact of climate risks and opportunities on current enterprise value can be significantly different.</p>