Statement of Interest

CDP welcomes the opportunity to comment on XRB's discussion paper on the strategy and metrics and targets modules of NZ CS 1, and we applaud XRB for developing these draft modules. Our overall impression is that the modules in the consultation paper represent a bold step forward in fostering a more climate-resilient financial system for New Zealand.

We are pleased to offer the feedback below from our perspective as a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with over 680 investors with $130 trillion in assets, CDP pioneered working through capital markets and corporate procurement to motivate companies to disclose their environmental impacts, reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 14,000 organisations around the world disclosed data through CDP in 2021, including more than 13,000 companies worth over 64% of global market capitalisation, and over 1,000 cities, states and regions.

Fully TCFD aligned, CDP maintains the largest corporate environmental database in the world. CDP scores are used to drive ESG investment and procurement decisions towards a zero-carbon, and resilient economy. CDP data powers the global ESG ecosystem and is incorporated into platforms and outlets like Bloomberg, MSCI, DJSI, and Euronext, among others. CDP is also a founding member of the Science Based Targets initiative, the We Mean Business Coalition, the Investor Agenda and the Net Zero Asset Managers initiative.

We offer the comments below to ensure that NZ CS 1 will position regulated entities to provide the capital market with comparable, decision-useful data. To that end, we have indicated the frameworks, standards, and other reference points which our stakeholders have found most useful in enabling issuers to meet global best practices. Additional recommendations for policymakers and regulators to incentivize corporate climate action are captured in the recent briefs The Time for Action is Now and Shaping High Quality Mandatory Disclosure. We would also invite you to review out latest analysis of APAC corporate environmental reporting, Rising to the challenge: how companies in Asia Pacific are preparing for the net-zero economy.

Please find CDP's full response below. We have focused on the sections of the guidance where we felt that our expertise would be most useful to your team. Please feel free to get in touch should you wish to follow up on any of our comments – we would be happy to discuss how XRB could best leverage CDP's platform, resources, database and experience in environmental reporting. We look forward to further engaging with XRB.

Yours sincerely,

John Leung

Director – Southeast Asia and Oceania

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?

Overall, we find the proposals for the strategy section of NZ CS 1 to meet primary user needs, and that the standard is clear and unambiguous in terms of the information to be disclosed. We have indicated below which elements of the section we believe XRB may wish to revise.

We would also like to acknowledge XRB for requiring companies to disclose details of their transition plans. Authorities in both the United Kingdom[1] and the Unites States[2] have also signaled the need to develop and disclose transition plans. We believe that this requirement in NZ CS 1 will prepare CREs to prosper in a low-carbon economy and enable the commercial sector to better contribute to New Zealand's net-zero commitments.

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

While requiring CREs to develop a standalone disclosure describing their business model and strategy would facilitate tracking over time and the impact of climate issues on the company's business model, care must be taken to ensure that any standalone disclosures do not lead to fragmentation or reduced accessibility of relevant information. We would suggest that any standalone disclosures should be cross-referenced or otherwise linked to mainstream reports to the greatest degree possible. We would also note that the requirement to create an additional, standalone document could increase the reporting burden on CREs, with a potentially deleterious effect on the quality of reporting. CDP's climate change questionnaire, platform, and associated guidance can help CREs identify and report TCFD-relevant data for inclusion in its required filings.

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?

CDP supports XRB's position that CREs should be free to choose the temperature increase scenario considered most important to their business, provided the scenario refers to an increase of more than 2°C. CDP's guidance material recognizes that companies in industries most at risk of physical impacts will likely choose scenarios with greater temperature increase.

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[1] HM Treasury (2021): [Chancellor: UK will be the world's first net zero financial centre](#).
[2] US SEC (2022): [Enhancement and Standardization of Climate-Related Disclosures](#).

The scenario selected for analysis should reflect the unique context and risk profile of each CRE.

While we agree that NZ CS 1 should not prescribe specific scenarios or degrees of warming beyond, we would suggest that the guidance include content on best practices in conducting and reporting scenario analysis – this could build on the "Getting started with scenario analysis" topic listed in 6.4. This could include guidance on how to select scenarios. CDP's Technical Note on Scenario Analysis advises companies to begin with scenarios that are:

- Peer reviewed
- Used, referenced, and/or issued by an independent body
- Supported by publicly available datasets
- Updated regularly
- Linked to functional tools (i.e. visualizers, calculators, and mapping tools)

The Technical Note contains a list of scenarios that meet these criteria. XRB is welcome to share CDP's Technical Note with CREs.

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?

CDP respectfully disagrees on this point. Our position is that transition plans suffer from a lack of credibility without clear alignment with a 1.5°C future and a net-zero commitment by 2050 at the latest. The nature of a transition plan is to outline the company's pathway toward prosperity in a net-zero economy, and this planning is incomplete without reference to a clearly designated, net-zero endpoint. Absent such targets, transition plans will lack specificity and may fail to meet stakeholder expectations.

CDP's recent climate transition plan discussion paper outlines key elements for reporting a credible action plan and indicates how relevant indicators are captured on CDP's climate change questionnaire[3]. CDP research indicates that while roughly a third of companies disclosing through CDP have a transition plan, less than one-third of these companies disclosed credible targets, and only six percent of companies overall reported both an emissions target and a net-zero target[4]. Among New Zealand companies responding to CDP, less than half disclose 80% or more of the elements of a credible transition plan. This suggests that the market requires a clear regulatory signal to prioritize credible transition planning.

NZ CS 1 provides XRB with an opportunity to show leadership in spurring CREs to set credible transition plans. We would invite XRB to include CDP's materials on transition planning and assessment methodology for transition plans in the guidance accompanying NZ CS 1. We would also be happy to provide XRB with CDP data on New Zealand companies' performance in transition plan disclosure.

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

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[3] CDP (2021): Climate transition plan: discussion paper.
[4] CDP (2022): Are companies being transparent in their transition?.

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?**

Overall, we agree with the proposed adoption provisions. It is reasonable to expect CREs to be able to provide qualitative information on financial impacts in the first reporting year, and to be able to provide quantitative information in subsequent years. We find that this arrangement strikes the right balance between the urgent need to provide markets with relevant data and the time required for CREs to build capacity in quantitative analysis of climate impacts. We take the same attitude toward the delay in implementing the full requirements for transition and adaptation planning.

> **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 agree with the decision to exclude scenario analysis from first-time adoption provisions. As the discussion document notes, scenario analysis is a precursor to estimating potential financial impacts of climate change and constructing transition plans, and delaying the scenario analysis requirement would also entail delaying these exercises. Scenario analysis has been in use for some time now, and the both the discussion document and the general direction of travel in climate reporting send a clear signal that CREs should begin building capacity in scenario analysis now.

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.**

Overall, we agree that this section meets the needs of primary users, and that the data reported by CREs will be decision useful to users.

We would like to acknowledge and applaud XRB for requiring CREs to disclose information on the proportion of management remuneration linked to managing climate-related risks and opportunities. CDP's believes that this linkage increases accountable and provides the right incentives to manage climate-related issues, and we encourage other policy actors to require similar disclosures.

We also appreciate the emphasis that NZ CS 1 puts on the need to make fulsome disclosures on emissions across all three scopes, including the emissions factors; methodologies; and consolidation approach used to calculate the reported emissions. These requirements will yield a high degree of transparency and provide users with greater confidence in the reported data.

> **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, however we should suggest that XRB consider rephrasing "science-based" in item 7(b) of Table 6. Out concern is that the proposed phrasing may conflate the general concept of emissions targets based on and consistent with climate science with the validation process carried out by the Science Based Targets Initiative (SBTi) and its associated net-zero methodology. While the practice of basing targets on science is not owned by any since entity, the prominence of the SBTi – especially in New Zealand, where 13 many companies have SBTi-validated targets – and its association with the term "science-based" may lead to confusion. We would suggest that XRB consider alternate phrasing like "targets based on science".

We would also propose that in item 4(b) of Table 6 that XRB consider adopting a more prescriptive approach and requiring companies to disclose GHG emission intensity in terms of a single metric. This would facilitate comparability both within and across sectors. The definition supplied – an expression of "GHG impact per unit of physical activity or unit of economic output" – is accurate but potentially opens the door to CREs using various, incomparable metrics. This could dilute the value of the reported data.

CDP considers it best practice to report emissions intensity in terms of per unit of revenue, as this is broadly applicable and easily calculated. We would ask that XRB require this from CREs, while encouraging them to also express intensity in terms of other relevant, more sector-specific units.

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 – within the context of the above comments, we find the standard to strike a reasonable balance between prescriptiveness and principles-based flexibility.

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 at this point it is reasonable to limit NZ CS 1 to universally relevant metrics, with guidance directing CREs to separate, industry-specific metrics. We note that both the TCFD and the TWRG of the IFRS have indicated industry-specific metrics and that there is a degree of divergence between the two sets of metrics. CDP agrees with XRB's approach of monitoring the development of best practices globally with a view toward revising future versions of the standard to include industry-specific metrics.

We would also like to invite XRB to make use of CDP's 17 sector-specific questionnaires, which contain industry-specific metrics that CDP's stakeholders have found to be most relevant. CDP's resources library also includes guidance on how to measure and report each of the sector-specific questions in CDP's questionnaires[5].

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

[5] Full questionnaires, scoring methodology, and guidance materials for both CDP's general and sector-specific climate change questionnaires can be found on the [Guidance for Companies]() page.

measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?

While there are challenges to measuring Scope 3 emissions, CDP is not aware of any impediments that would justify removing or limiting the Scope 3 emissions disclosure requirements. As noted in the discussion document, the Greenhouse Gas Protocol has a well-developed set of methodologies to measure and report emissions throughout the value chain. The latest TCFD implementation specifically encourages all companies to report Scope 3 emissions[6], and following this reporting Scope 3 emissions has become mainstream, being featured in proposed requirements from the United States Securities and Exchange Commission[7] and Bursa Malaysia[8] in March 2022. We see no reason why New Zealand CREs cannot meet the same requirements.

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?

No – we consider these requirements reasonable.

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

According to the proposed definitions, gross Scope 2 emissions are to be calculated using the location-based methodology. However, the GHG Protocol Scope 2 guidance requires companies to report Scope 2 emissions using both the market- and location-based methods[9]. The CDP scoring system encourages this as well[10]. This practice of “dual reporting” enhances consistency and comprehensiveness of reporting. We would therefore suggest amending the guidance to require CREs to report both location- and market-based figures.

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?

CDP agrees with this positioning. As noted in the discussion document, the requirement to measure and report GHG emissions across all three scopes does not place an undue burden on CREs. We echo XRB’s statement that many of the CRE’s risks and opportunities will be embedded throughout the value chain, with Scope 3 emissions being on average 11.4 times greater than direct emissions[11], and that for this reason it is reasonable to expect all companies to report on Scope 3 emissions. CDP and other organizations regularly provide free, open-access training on emissions reporting, and CREs should not encounter significant difficulty in building capacity on emissions reporting before the implementation NZ CS 1.

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[6] TCFD (2021): Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures. See page 7.
[7] US SEC (2022): Enhancement and Standardization of Climate-Related Disclosures.
[8] Bursa Malaysia (2022): Consultation Paper No. 1/2022: Review of the sustainability reporting requirements under the main market and ace market listing requirements.
[9] WRI (2015): GHG Protocol Scope 2 Guidance. See item 1.5.1.
[10] CDP (2021): CDP Climate Change 2021 Reporting Guidance. See notes on question C5.1.
[11] CDP (2021): Engaging the chain: driving speed and scale.

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

We applaud XRB for requiring assurance of reported GHG emissions. Although assurance is critical to ensuring accountability and building confidence among stakeholders, CDP research indicates that few APAC companies responding to CDP in 2021 provided assurance statements, ranging from less than a quarter of companies providing assurance for Scope 1 and Scope 2 emission to just 15% providing assurance for Scope 3 emissions[12]. The requirement to provide assurance for reported GHG emissions requirement puts NZ CS 1 in some respects ahead of similar reporting requirements in other jurisdictions such as Hong Kong, Malaysia, and Singapore, where assurance remains largely voluntary[13].

We agree that limited, third-party assurance is an appropriate minimal level of assurance for the initial version of NZ CS 1. CDP's scoring methodology incentivizes companies to provide limited assurance for disclosed emissions, and we consider this to be in line with global investor expectations[14]. Beginning with an initial requirement of limited assurance also NZ CS 1 with the Unites States Securities and Exchange Commission's proposed disclosure requirements[15].

We further agree with XRB's intention to review the required minimum level of verification once the regime is in place. We would suggest that XRB outline a tentative timeline for increasing the stringency of the assurance requirement to reasonable assurance. Here XRB could again sync with American authorities, which will require reasonable assurance of reported emissions by 2027. CDP also continues to monitor and review its approach to different levels of verification and may increase its scoring methodology as appropriate.

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?

CDP agrees with this definition of materiality. While we regret that XRB does not consider it possible to adopt the double materiality lens at this juncture, we agree that the financial materiality lens aligns with the recommendations of the TCFD and forms a solid foundation that may eventually be expanded upon to encompass the double materiality approach.

We note that item of 12 in *Table 11: Proposed Materiality section of NZ CS 3* underlines the dynamic, iterative relationship between a company's impact on the climate and the corresponding impacts on enterprise value, signaling that information about environmental impacts could constitute material information. CDP would be happy to provide XRB with evidence, rationales, and other support with respect to the materiality of climate impacts.

We also note that item 4 in Table 11 indicates that CREs may determine, after conducting materiality assessments, that some of the prescribed disclosures would not contain material

[12] CDP (2022): Rising to the challenge: how companies in Asia Pacific are preparing for the net-zero economy.
[13] See Rule 711B(3) of SGX Mainboard Rules; Appendix 27 of HKEx Rulebook; and Bursa Malaysia's consultation document on climate-related disclosure.
[14] CDP (2022): Verification FAQs.
[15] US SEC (2022): Enhancement and Standardization of Climate-Related Disclosures.

information, and in such cases, the CRE need not disclosure resulting information. While we understand that NZ CS 3 is intended to be principles-based standard and flexible, we would ask XRB deleting this item to ensure greater uniformity among disclosures. CDP consider that the set of TCFD-aligned disclosures are material to all CREs covered under the standard. As such, XRB could follow the example of Bursa Malaysia's proposed disclosure requirements and deem that the relevant disclosures are material to all CREs[16].

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

No.

[16] Bursa Malaysia (2022): Consultation Paper No. 1/2022: Review of the sustainability reporting requirements under the main market and ace market listing requirements. See proposal II (pp. 11-16).