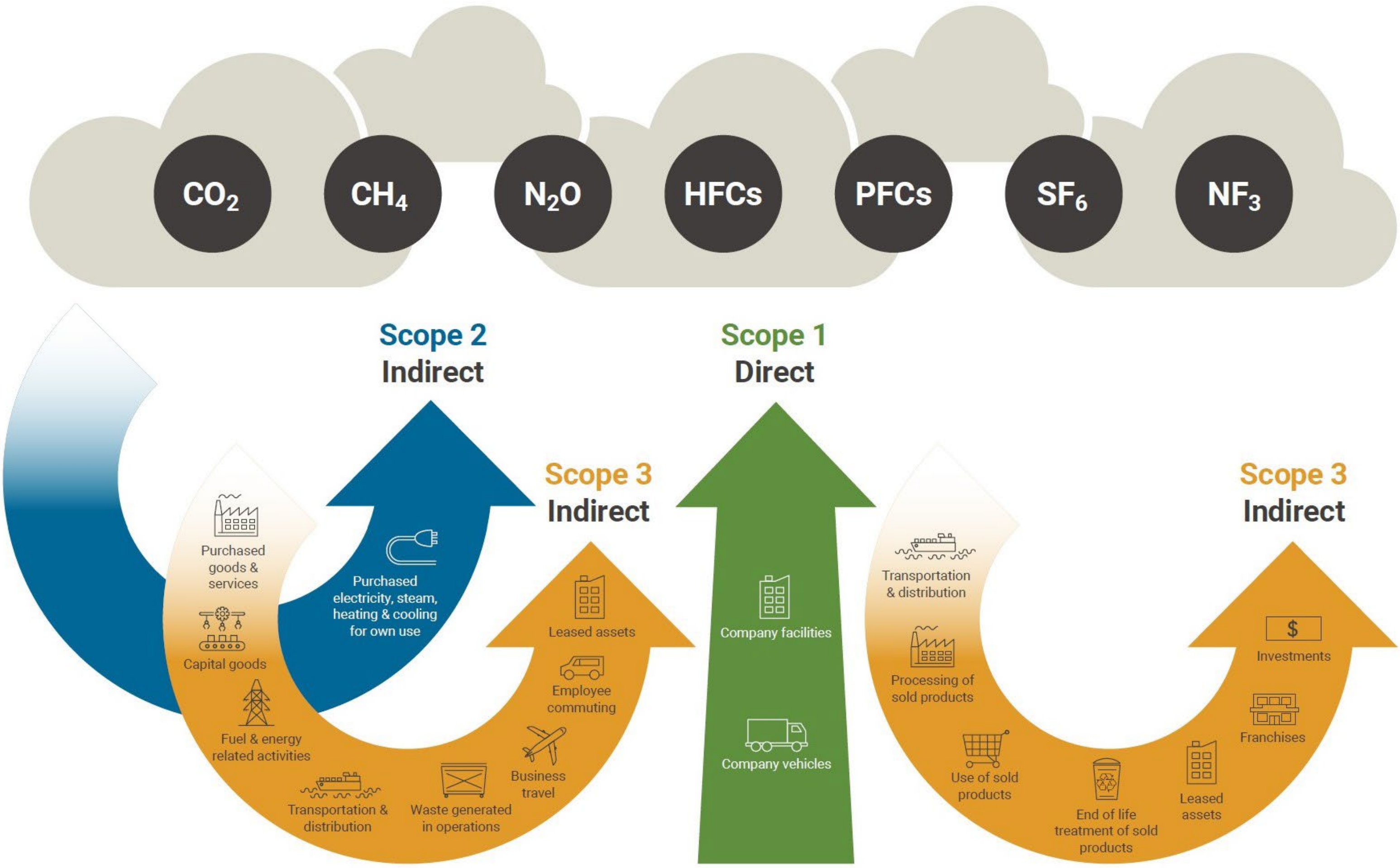


# Feedback on XRB Proposed Climate-related financial disclosures

April 2022

WAKA KOTAHI NZ TRANSPORT AGENCY

Te Kāwanatanga o Aotearoa
New Zealand Government

## Contents

# Background

## Legislation

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill makes it mandatory for climate reporting entities to produce climate statements according to disclosure requirements in External Reporting Board (XRB) standards. The reporting requirement will apply to publicly listed companies and large insurers, banks, non-bank deposit takers and investment managers. See section 7A (461O - Meaning of climate reporting entity).

The Crown may also nominate that Crown Financial Institutions must report in line with the climate reporting framework through a letter of expectation from their relevant Minister, effectively making them CREs as well. https://www.beehive.govt.nz/release/climate-reporting-crown-financial-institutions

Crown Financial Entities are five public entities with specific responsibilities for managing and investing large financial assets – the New Zealand Super Fund (NZSF), the Government Superannuation Fund Authority, the Earthquake Commission, ACC, and the National Provident Fund (a statutory board).

For more information see the Amendment Bill:
https://legislation.govt.nz/bill/government/2021/0030/latest/LMS479633.html?src=qs

Waka Kotahi does not currently fall within the required scope of the climate-related financial disclosures. However, as this reporting may become a requirement for Waka Kotahi in the future a climate related disclosure section was included in the 2020/21 Annual Report. This reporting is expected to be continued for the 2021/22 Annual Report.

## Timeline

- 2 May 22 – Initial draft disclosure consultation closes
- July 2022 – Formal Exposure Draft to be released - this formal exposure draft will comprise the entire climate related disclosure framework.
- December 2022 – XRB expected to issue standards.
- 23/24 Financial Year – The reporting regime takes effect.
- 24/25 Financial Year – Assurance requirements take effect.

# Please provide your feedback

To help collate feedback on the proposed standards for Waka Kotahi the following pages provide the proposed standards and the associated questions for consideration from XRB.

Please add your feedback to this document using tracked changes and/or comments. If you have already provided feedback directly to XRB please let us know so that you can be included in any future discussion on the standard.

The full consultation document is available on the Climate-Related Financial Disclosures Teams page this includes the context of the new standards (see part 1 – pages 7-18), and further details on the standards included in this document (see part 2 pages 19 – 53).

XRB also has other resources summarising the standard on their website:
https://xrb.govt.nz/standards/climate-related-disclosures/strategy-and-metrics-and-targets-consultation-document/

# Draft Standards Summary

XRB propose three mandatory standards for the Aotearoa New Zealand Climate Standards:

- Standard 1: Climate-related disclosures (NZ CS 1)
    - Governance, Risk Management, Strategy, and Metrics and Targets
- Standard 2: First-time adoption of Aotearoa New Zealand Climate Standards (NZ CS2)
    - Adoption provisions for first time they are required to disclose
- Standard 3: General requirements for climate-related disclosures (NZ CS 3).
    - General requirements for preparers to follow when making disclosures

XRB will also provide nonmandatory guidance to accompany NZ CS 1.

# Standard 1: Climate-related disclosures (NZ CS 1)

## Proposed section – Strategy

| | |
|---|---|
| **Disclosure objective** | 1. The objective of these disclosures is to enable primary users to understand the *impacts* of climate-related risks and opportunities on an entity's *business model, strategy and financial planning* over the short, medium, and long term, including *actual* and *potential financial impacts*. How an entity has employed *scenario analysis* to evaluate the *resilience* of its business model and strategy is a key factor in realising this objective. Such information is used to inform expectations about the future performance of an entity. |
| **Explanatory paragraph** | 2. An entity must consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements. If the disclosures provided in accordance with paragraphs 3–7, are not sufficient to meet the objective in paragraph 1, an entity must disclose additional information necessary to meet that objective. However, an entity must ensure that relevant information is not obscured by the inclusion of insignificant detail. |
| **Disclosures** | 3. To achieve the disclosure objective in paragraph 1, an entity must disclose:<br>(a) a description of the climate-related risks and opportunities it has identified over the short, medium, and long term (see paragraph 4);<br>(b) a description of the impact of climate-related risks and opportunities on its business model, strategy and financial planning (see paragraph 5);<br>(c) a description of the resilience of its business model and strategy to different climate-related scenarios (see paragraph 6); and<br>(d) the methodologies and assumptions underlying the climate-related scenarios used, and the scenario analysis process employed (see paragraph 7).<br>4. An entity must include the following information when describing its climate-related risks and opportunities (see paragraph 3(a)):<br>(a) how it defines short, medium and long term and how the definitions are linked to its strategic planning horizons and capital deployment plans;<br>(b) a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact on the entity; and<br>(c) whether the risks and opportunities identified are physical or transition risks or opportunities and, where relevant, their sector and/or geography.<br>5. An entity must include the following information when describing the impact of climate-related risks and opportunities on its business model, strategy and financial planning (see paragraph 3(b)):<br>(a) a description of its business model and strategy;<br>(b) the actual impacts of climate-related risks and opportunities on its business model, strategy and financial planning;<br>(c) the actual financial impacts of climate-related risks and opportunities on its *financial position, financial performance* and *cash flows;*<br>(d) how climate-related risks and opportunities serve as an input to its financial planning processes, including for capital deployment and funding; and<br>(e) the *transition* and *adaptation plan* aspects of its strategy, including the extent to which financial plans are aligned with these plans.<br>6. An entity must include the following information when describing the resilience of its business model and strategy (see paragraph 3(c)): |

(a) the potential impacts of climate-related risks and opportunities on its business model and strategy;
(b) how its business model and strategy might change to address such risks and opportunities;
(c) the potential financial impacts of climate-related risks and opportunities on its financial position, financial performance and cashflows; and
(d) a description of the scenario analysis it has undertaken, using a range of climate-related scenarios including, at a minimum, a 1.5°C scenario and a greater than 2°C scenario.

**Methodologies and assumptions**

7. An entity must disclose the following information when describing the methodologies and assumptions underlying the *climate-related scenarios* used, and the scenario analysis process employed (see paragraph 3(d)):

(a) the climate-related scenarios it has used, including:
(i) a brief description of each scenario narrative;
(ii) the time horizons considered, including endpoints and whether the endpoints are determined by a year or a temperature target;
(iii) a description of the various pathways in each scenario and the key assumptions underlying pathway development over time, including the scope of operations covered, policy assumptions, macroeconomic trends, energy pathways, carbon sequestration from afforestation and nature-based solutions and technology assumptions including negative emissions technology;
(iv) an explanation of why the entity believes the chosen scenarios are relevant and appropriate to assessing the resilience of the entity's business model and strategy to climate-related risks and opportunities; and
(v) the sources of data used to construct each scenario;

(b) how the scenario analysis process has been conducted, including:
(i) whether scenario analysis is a standalone analysis or integrated within the entity's strategy processes;
(ii) the governance process used to oversee and manage the scenario analysis process, including the role of the board and management;
(iii) if modelling has been undertaken, a clear description of what modelling was undertaken and why the model/s were chosen as the appropriate model/s; and
(iv) which external partners and stakeholders are involved.

## Proposed defined terms

| | |
|---|---|
| **actual** | The use of the term actual in this context refers to either impacts or financial impacts that have already occurred. |
| **adaptation plan** | An aspect of an entity's overall strategy that lays out how an entity aims to minimise risks and capture opportunities associated with physical climate changes. |
| **business model** | An entity's system of transforming inputs through its business activities (including operations) into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium, and long term. |
| **cash flows** | An entity's actual cash flows as reflected in its statement of cash flows or potential cash flows under different climate-related scenarios. |
| **climate-related scenario** | A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Note that climate-related scenarios are not intended to be probabilistic or predictive, or to identify the 'most likely' outcome(s) of climate change. |
| **financial impacts** | The translation of impacts into actual or potential impacts on financial position and/or financial performance and cash flows. |
| **financial performance** | An entity's actual income and expenses as reflected in its statement of financial performance or potential income and expenses under different climate-related scenarios. |
| **financial planning** | An entity's consideration of how it will achieve and fund its objectives and strategic goals. The process of financial planning allows entities to assess future financial positions and determine how resources can be utilised in pursuit of short- and long-term objectives. As part of financial planning, entities often create "financial plans" that outline the specific actions, assets, and resources (including capital) necessary to achieve these objectives over a 1-to-5-year period. However, financial planning is broader than the development of a financial plan as it includes long-term capital deployment and |

| | |
|---|---|
| | other considerations that may extend beyond the typical 3-to-5- year financial plan (e.g., investment, research and development, manufacturing, and markets). |
| **financial position** | An entity's actual assets, liabilities, and equity as reflected in its statement of financial position or potential assets, liabilities, and equity under different climate-related scenarios. |
| **impacts** | The effects of climate-related risks and opportunities materialising on the entity, which will in turn depend on the impacts of climate change on the broader socioeconomic and ecological systems the entity operates within. These impacts are driven by the specific climate-related risks and opportunities to which the entity is exposed, and its strategic and risk management decisions on seizing those opportunities and managing those risks. |
| **potential** | The use of the term potential in this context refers to impacts or financial impacts that may plausibly occur in the future. |
| **resilience (in the context of an entity's strategy)** | The characteristic of an entity's strategy that allows it to adapt to climate-related changes materially affecting it, while maintaining operations and profitability and safeguarding people, assets, and overall reputation. Strategy resilience has two main pillars: vulnerability and preparedness. Vulnerability incorporates the elements of exposure, sensitivity, and adaptive capacity. Preparedness incorporates the elements of strategic planning and adaptive capacity. Strategic planning is primarily a forward-looking exercise. Assessment of adaptive capacity involves both present and forward-looking aspects. |
| **scenario analysis** | A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. In the case of climate change, climate-related scenarios allow an entity to explore and develop an understanding of how physical and transition risks and opportunities may impact its business model and strategy over time. |
| **strategy** | An entity's desired future state. An entity's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the entity's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates. |
| **transition plan** | An aspect of an entity's overall strategy that lays out a set of targets and actions supporting its transition toward a low-emissions economy, including actions such as reducing its GHG emissions. |

## Questions to consider

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?

2. Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?
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. 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?
5. Do you have any views on the defined terms as they are currently proposed?

# Proposed section – Metrics and Targets

**Disclosure objective**

1. The objective of these disclosures is to enable primary users to understand how an entity measures and manages its climate-related risks and opportunities. Such information supports primary user's evaluations of the entity's potential risk-adjusted returns, ability to meet financial obligations, general exposure to climate-related risks and opportunities, and progress in managing or adapting to those risks and opportunities. They also provide a basis upon which primary users can compare entities within a sector or industry.

**Explanatory paragraph**

2. An entity must consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the requirements. If the disclosures provided in accordance with paragraphs 3–12, are not enough to meet the objective in paragraph 1, an entity must disclose additional information necessary to meet that objective. However, an entity must ensure that relevant information is not obscured by the inclusion of insignificant detail.

**Disclosures**

3. To achieve the disclosure objective in paragraph 1, an entity must disclose:
(a) the metrics used to measure and manage climate-related risks and opportunities in line with its strategy and risk management processes (see paragraphs 4, 5 and 6);
(b) the targets used to manage climate-related risks and opportunities and performance against targets (see paragraph 7); and
(c) the methodologies and assumptions used to calculate its metrics and targets (see paragraphs 11 and 12).

**Cross-industry metrics**

4. An entity must disclose cross-industry metrics consistent with the climate-related metric categories below (see paragraph 3(a)):
(a) greenhouse gas (GHG) emissions: *gross scope 1, scope 2, scope 3 (value chain) emissions* in metric tonnes of *CO2e* (see paragraphs 8, 9 and 10)
(b) GHG *emissions intensity*;
(c) transition risks: amount or percentage of assets or business activities vulnerable to transition risks;
(d) physical risks: amount or percentage of assets or business activities vulnerable to physical risks;
(e) climate-related opportunities: proportion of revenue, assets, or other business activities aligned with climate-related opportunities, expressed as an amount or percentage;
(f) capital deployment: amount, in reporting currency, of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities;
(g) *internal emissions price*: price on each tonne of greenhouse gas emissions used internally by an entity, expressed in reporting currency per metric tonne of CO2e; and
(h) remuneration: proportion of management remuneration linked to climate-related risks and opportunities in the current period (see Governance paragraph 4 (c)), expressed as a percentage, weighting, description or amount in reporting currency.

**Industry-specific metrics**

5. An entity must disclose the industry-specific metrics it uses to measure and manage its climate-related risks and opportunities.

**Entity-specific metrics**

6. An entity must include any other key performance indicators used to measure and manage climate-related risks and opportunities.

**Targets**

7. An entity must include the following information when describing the targets used to manage climate-related risks and opportunities and performance against targets (see paragraph 3(b)):
(a) whether the target is absolute or intensity based;
(b) whether the target is science-based, and if so, whether it has been validated by a third party;
(c) the time frame over which the target applies;
(d) the associated *interim targets;*
(e) the *base year* from which progress is measured; and
(f) a description of performance against targets.

**GHG emissions**

8. An entity must disclose the following in relation to its GHG emissions:

(a) the cross-industry GHG emissions metric set out in paragraph 4 (a);

(b) a statement that the GHG emissions have been extracted from its GHG emissions report (see paragraph 9);

(c) a statement describing the standards, protocols, and methodologies that the entity's GHG emissions report has been prepared in accordance with;

(d) the *consolidation* approach for emissions: whether equity share, financial control, or operational control;

(e) the source of *emission factors* and the *global warming potential* (GWP) rates used or a reference to the GWP source;

(f) a summary of specific exclusions of sources, facilities and/or operations.

9. An entity must prepare a GHG emissions report to support its disclosures of GHG emissions at paragraphs 4(a) and 8(b) – (f). The GHG emissions report must be linked or cross-referenced in its disclosures.

10. An entity's GHG emissions disclosures must be drawn from and consistent with information presented in its GHG emissions report for the relevant periods. Where information in the GHG emissions report has subsequently been restated, the information in the climate statement shall be drawn from, and be consistent with, that restated information.

**Methodologies and assumptions**

11. An entity must provide a description of the methodologies and assumptions used to calculate or estimate climate-related metrics and targets where they are not apparent including the significant assumptions made and the limitations of those methods.

12. An entity must identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.

## Proposed defined terms

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|---|---|
| **base year** | An historic datum (a specific year or an average over multiple years) against which an entity's emissions are tracked over time. |
| **CO2e** | Carbon dioxide equivalent. The universal unit of measurement to indicate the global warming potential of each of the seven greenhouse gases, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. It is used to evaluate releasing (or avoiding releasing) any greenhouse gas against a common basis. |
| **consolidation** | Combination of GHG emissions data from separate operations that form part of one company or group of companies. |
| **emissions** | The release of greenhouse gases into the atmosphere. |
| **emission factor** | A factor allowing GHG emissions to be estimated from a unit of available activity data (for example, tonnes of fuel consumed, tonnes of product produced) and absolute GHG emissions. |
| **emissions intensity** | Intensity ratios express GHG impact per unit of physical activity or unit of economic output. A physical intensity ratio is suitable when aggregating or comparing across businesses that have similar products. An economic intensity ratio is suitable when aggregating or comparing across businesses that produce different products. A declining intensity ratio reflects a positive performance improvement. Many companies historically tracked environmental performance with intensity ratios. Intensity ratios are often called 'normalised' environmental impact data.<br>Examples of intensity ratios include product emission intensity (for example, tonnes of CO2 emissions per electricity generated); service intensity (for example, GHG emissions per function or per service); and sales intensity (for example, emissions per sales). |
| **GHG emissions report** | The report from which GHG disclosure data is extracted for the climate statement. This contains all the details required by the recognised standards or methodologies (basis of preparation) used to calculate emissions. |
| **global warming potential (GWP)** | A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of carbon dioxide (CO2). |
| **greenhouse gases (GHG)** | The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO2); methane (CH4); nitrous oxide (N2O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF3); perfluorocarbons (PFCs); and sulphur hexafluoride (SF6). |

| | |
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| **gross emissions** | The total of emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based methodology. Removals should be reported separately. |
| **interim target** | Refers to a short-term milestone between the organization's medium- or long-term target and current period. |
| **internal emissions price** | A monetary value on GHG emissions an entity uses internally to guide its decision-making process in relation to climate change impacts, risks and opportunities. |
| **metric** | A metric is a quantity indicative of the level of historical, current, and forward-looking climate related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against climate-related targets over the duration of the period for which a target is set. |
| **scope 1** | All direct GHG emissions. |
| **scope 2** | Indirect GHG emissions from consumption of purchased electricity, heat, or steam. |
| **scope 3** | Other indirect emissions not covered in scope 2 that occur in the value chain of the reporting entity, including both upstream and downstream emissions. Scope 3 categories are: purchased goods and services; capital goods; fuel- and energy-related activities; upstream transportation and distribution; waste generated in operations; business travel; employee commuting; upstream leased assets; downstream transportation and distribution; processing of sold products; end-of-life treatment of sold products; downstream leased assets; franchises; and investments. |
| **target** | A target is a specific level, threshold, or quantity of a metric that the entity wishes to meet over a defined time horizon in order to achieve the entity's overall climate-related ambition and strategy. |
| **value chain** | The upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/ recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption). |

## Questions to consider

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?

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?

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?

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?

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

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?

## Proposed section – Assurance

**Intended Scope of Assurance:**

| Metrics and Targets disclosure | Description |
|---|---|
| Disclosure 4(a) | Scope 1, 2 and 3 GHG emissions |
| Disclosure 8 | Additional requirements for the disclosure of GHG emissions under disclosure 4(a) |
| Disclosure 9 | The requirement to prepare a GHG emissions report and provide a link or cross reference (the GHG emissions report is an integral part of the disclosures and will be required to be publicly available) |
| Disclosure 10 | Confirmation that GHG disclosures have been drawn from the GHG emissions report |

**Types of Assurance:**

| | |
|---|---|
| **Reasonable assurance** | This is the highest level of assurance.<br><br>The conclusion in a reasonable assurance engagement is framed in a positive sense, i.e.: “In our opinion, XYZ’s GHG inventory for the year ended 31 December 2021 totalling XXt CO2e has been prepared and presented fairly, in all material respects, in accordance with the criteria defined below.” |
| **Limited assurance** | This is a lower level of assurance compared to reasonable.<br><br>The conclusion in a limited assurance engagement is framed in a negative sense, i.e.: “Based on our limited assurance procedures, nothing came to our attention that caused us to believe that XYZ’s GHG inventory for the year ended 31 December 2021 totalling XX tCO2e, has not been prepared and presented fairly, in all material respects, in accordance with the criteria defined below”. |

## Questions to consider

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

# Standard 2: First-time adoption of Aotearoa New Zealand Climate Standards (NZ CS2)

## Proposed section – Strategy first-time adoption provisions

| Disclosure requirement | First-time adoption provision | Comment |
|---|---|---|
| **Financial impacts**<br>Paragraph 4(b): a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact on the entity. | In the first climate statement: no further information required by the standard. | Starting with qualitative information, then moving to more quantitative information[13], reflects the importance of building maturity in the ability to calculate financial impacts to ensure that what is reported is ultimately meaningful and does not lead to the disclosure of potentially misleading and/or inaccurate disclosure. Given the necessary use of a relatively high degree of assumptions and proxies when looking forward over long time horizons, getting more familiar with quantifying financial impacts well will be important. We consider that providing quantitative information will necessitate being specific around the time horizons over which these impacts are expected to affect the entity (noting that these time horizons may be different to the time horizons over which risks and opportunities relate). |
| Paragraph 5(c): the actual financial impacts of climate-related risks and opportunities on its financial position, financial performance and cash flows.<br>Paragraph 6(c): the potential financial impacts of climate-related risks and opportunities on its financial position, financial performance and cash flows. | In the first climate statement: disclose qualitative information only in relation to both actual and potential financial impacts.<br>From the second climate statement onwards: disclose quantitative information. | |
| **Transition plans**<br>Paragraph 5(e): the transition and adaptation plan aspects of its strategy, including the extent to which financial plans are aligned with these plans. | In the first climate statement: disclose progress towards developing a transition plan.<br>From the second climate statement onwards: disclose the transition plan. | This approach reflects the demands of primary users, the urgency of the climate crisis and the need to reduce emissions in line with existing legislative emissions reduction targets at the national level, in the context of the Paris Agreement. Capability building is not a concern in the same way as it is for adaptation planning. |
| **Adaptation plans**<br>Paragraph 5(e): the transition and adaptation plan aspects of its strategy, including the extent to which financial plans are aligned with these plans. | In the first two climate statements: disclose progress towards developing an adaptation plan.<br>From the third climate statement onwards: disclose the adaptation plan. | This approach reflects the importance of building capability and capacity in relation to understanding physical and transition risks, and decision-making under uncertainty, before entities plan significant adaptive action. It also reflects the relative lack of existing guidance on adaptation plans from the TCFD. We plan to develop supporting guidance on adaptation plans, as referred to below. We also expect further sector-level adaptation plans to be developed over time in New Zealand, so while they may not be familiar to all entities at present, they will be in time. |

## Questions to consider

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?

# Standard 3: General requirements for climate-related disclosures (NZ CS 3).

## Proposed section – General requirements

| Section | Proposed key content (not an exhaustive list) |
| --- | --- |
| **Materiality** | An entity will be required to disclose all material information about its climate-related risks and opportunities. This section will include a definition of material information and requirements/explanatory paragraphs in relation to materiality judgements. |
| **Reporting entity and reporting period** | Except as otherwise required by legislation, an entity will be required to present climate-related disclosures for the same reporting entity and reporting period as the financial statements. |
| **Comparative information and consistency of reporting** | This section will include requirements:<br>• to report comparative information (for both amounts and narrative and descriptive information); and<br>• to report information consistently. |
| **Presentation/cross-referencing** | This section will include requirements in relation to presentation, including the ability of an entity to cross-reference to other information. |
| **Fair presentation** | Requirements in relation to fair presentation. Fair presentation requires the faithful representation of climate-related risks and opportunities. Entities will be required to disclose information that is relevant, reliable, comparable and understandable. |
| **Reporting framework** | Statutory basis under which the climate statement has been prepared. |
| **Statement of compliance** | Requirement to state compliance with Aotearoa New Zealand Climate Standards. |
| **Qualitative characteristics of useful information** | Relevance, faithful representation (information being complete, neutral and free from error), comparability, verifiability, timeliness and understandability. (See also The TCFD Fundamental Principles for Effective Disclosure). |

## Proposed section – Materiality

**Requirements**

1. An entity must disclose all *material* information about its climate-related risks and opportunities as required by Aotearoa New Zealand Climate Standards. 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.
2. Assessing whether information could reasonably be expected to influence decisions made by primary users requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.
3. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates. This [draft] Standard does not specify a uniform quantitative threshold for materiality or predetermine what would be material in a particular situation.
4. The application of the disclosure requirements in Aotearoa New Zealand Climate Standards are presumed to result in material information in most cases. However, if when applying the disclosure requirements to its own specific facts and circumstances, an entity determines that the resulting information is not material, it need not disclose it. If the entity makes such a determination, yet primary users may reasonably expect disclosure, an explanation or alternative item of information may need to be disclosed.
5. An entity must also consider whether to provide additional information not specified by Aotearoa New Zealand Climate Standards if that information is necessary for primary users to understand the impact of climate-related risks and opportunities on an entity's enterprise value across all time horizons, including in the long term.
6. An entity assesses whether information, either individually or in combination with other information, is material in the context of its *climate statement* taken as a whole.
7. An entity must apply judgement to identify the information about climate-related risks and opportunities that is material to an entity's circumstances at each reporting date.

Because an entity's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances.

8. The application of judgement in assessing whether information is material involves both quantitative and qualitative considerations. It is recognised that a quantitative assessment is not always possible.
9. An entity ordinarily assesses whether information is quantitatively material by considering the size of the impact against measures of the entity's financial position, financial performance and cash flows, as these can impact an assessment of enterprise value. For example, the potential impact of increases in revenue from new products or services from climate-related opportunities or the potential impact of cost increases from new regulatory requirements on an entity's financial performance may be of such a size it could reasonably be expected to influence decisions that primary users make on the basis of that information.
10. In some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of its size—a quantitative threshold could be material even if it is very small or zero. For example, GHG emissions may be seen as a proxy for an entity's exposure to transition risk, and hence be expected to influence an entity's primary users' decisions regardless of the size of those emissions. Another example is that in some circumstances the lack of processes could be material information (such as, if a board does not have any reporting processes in place to ensure that it is informed about climate-related risks and opportunities).
11. An entity must consider the context in which it operates when making materiality judgements. Characteristics of the entity's context include, but are not limited to, the entity's geographical location, its industry sector, or the state of the economy or economies in which the entity operates. Entities operating in the same context might share a number of these qualitative factors. Moreover, these qualitative factors could remain constant over time or could vary. In some circumstances, if an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.
12. Material information could include, but is not limited to, information about an entity's impacts on the climate, if those impacts could reasonably be expected to affect the entity's enterprise value. For example, if an entity has a negative impact on climate change, this may negatively impact its enterprise value due to subsequent regulatory action or social pressure.
13. Aotearoa New Zealand Climate Standards require some forward-looking information relating to possible future events that have uncertain impacts on the entity's enterprise value. In judging whether information about such possible future events is material, an entity must consider:

(a) the potential effects of the events on entity's enterprise value, including the long term; and

(b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

14. When considering possible outcomes, an entity must consider all relevant facts and circumstances, and consider information about low-probability and high-impact outcomes, which when aggregated, could become material. For example, an entity might be exposed to several climate-related risks, each of which could cause the same type of disruption—such as disruptions to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

## Proposed defined terms

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|---|---|
| **climate statement** | (For the purposes of this Standard) has the same meaning as “climate statements” as defined in the Financial Reporting Act 2013.<br>Climate statements, in relation to a reporting entity and a balance date, means the climate-related disclosures for the entity as at the balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of the entity by an applicable climate standard [Section 5(1) Financial Reporting Act 2013] |
| **enterprise value** | Market capitalisation of an entity plus the market value of the entity’s net debt. It is determined by capital market participants, based on their estimation of the amount, timing and certainty of future cash flows spanning the short, medium and long term. Enterprise value reflects primary users’ assessments of future cash flows, including the value attributed to those cash flows by primary users.<br>Essential inputs in determining enterprise value include corporate reporting in financial statements, as well as reporting on climate-related risks and climate-related opportunities that are reasonably likely to affect the entity’s business model over time (that is to say, affect revenue, costs, assets, liabilities, cost of capital and/or risk profile). The term captures the notion of expected value creation, preservation, or erosion over time for an entity’s equity and debt investors. This expected value creation, preservation or erosion is distinct from but fundamentally interdependent with an entity’s creation, preservation, or erosion of value for its stakeholders. |
| **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. |

## Questions to consider

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?

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