



Mindful Money submission

Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures Strategy, Metrics and Targets consultation

Mindful Money appreciates the opportunity to comment on the strategy and metrics proposals from the External Reporting Board (XRB) for the Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (CS 1) and Aotearoa New Zealand Climate Standard 3: *General Requirements for Climate-related Disclosures* (CS 3).

Mindful Money is a charity that promotes enhanced financial flows that contribute to well-being, sustainability, emissions reductions and enhanced resilience, and the inclusion of social, environmental and climate considerations into financial decision-making. Mindful Money provides transparency of financial information; educates and empowers financial users; contributes to higher standards for providers; and advocates for a supportive legal and policy framework.

Mindful Money strongly supports the introduction of comprehensive and transparent climate disclosure. The provision of robust, relevant and comparable information on the emissions of companies and financial institutions, as well as their strategies and targets, is important, not only for financial management but also for the achievement of emissions reductions and accountability processes. Through the XRB's work, New Zealand has a chance to shape standards that are leading on these aspects and influential in the establishment of internationally agreed norms.

Mindful Money are grateful for the opportunity to provide input in this consultation, and we look forward to working with XRB and others for ensure climate disclosure creates real benefits for users of financial information and for a rapid and just transition to a stable climate.

Summary of Recommendations

1. **Double materiality:** As Mindful Money commented on the previous consultation, the approach to this issue is too narrowly drawn. A sole focus on the financial risks and opportunities of the climate to the reporting entity is a major problem. The scope should be broadened to also include the impact of the reporting entity on the climate.

The narrow scope affects a number of the proposals in this consultation, but particularly the definition of materiality. Double materiality is important for stakeholders who will use this information, both financial investors and other users. It is incorrect to assume that companies, asset owners and investment managers are concerned only with enterprise value. There are a large number of financial sector organisations in New Zealand and internationally with a business purpose that goes beyond simply maximising profit. For them, the impacts of the companies they invest in is a crucial component of their overall business purpose. It is also crucial for the other users of the information.

It should be noted that existing and potential investors include members of the public. As has been shown [in market research](#) undertaken by Mindful Money and the Responsible Investment Association of Australasia, the vast majority of investors care about the impacts of companies on

people, the environment and the climate, not just their financial return. The interests of those primary users are clearly in double materiality, not just in the financial aspects.

This 'single materiality' approach is also out of step with progressive approaches internationally. For example, the EU's Guidance on corporate disclosure of climate related information states that it is: "*Guidance for companies on how to report on the impacts of their business on the climate and on the impacts of climate change on their business.*" Since New Zealand has a large proportion of capital inflows from the EU and UK, their framework should be an important consideration for the development of our standard.

The consultation paper argues that single materiality will be sufficient because impacts that an entity has on climate change will be reflected on its enterprise value. This is only the case if there is full public information about the impact (which is specifically not being provided under this proposal) and where there is a way to translated public concern to enterprise value (this is, for example, often not the case where there is no identifiable consumer product).

The choice of single or double materiality is a fundamental decision and one that we consider is central to the legitimacy and credibility of the climate disclosure regime. As the consultation paper outlines, this decision affects a number of aspects of the disclosure framework: "We are aware that adopting a double materiality approach would require us to apply a different lens when deciding what disclosure requirements should be included in standards, and who the primary users may be." (Consultation P.51)

The objectives for this standard and the provisions within it should be changed to reflect double materiality - the impact of the reporting entity on the climate, not just the impact of the climate on the reporting entity.

2. **Primary Users:** As Mindful Money commented on the governance standard, the definition of primary users is too narrowly drawn. These disclosures are of vital interest not only to providers of financial capital but a range of stakeholders in society.

The definition of primary users should be expanded from 'existing and potential investors, lenders and other creditors' to include those with a mandate to analyse and communicate information on climate risks, opportunities and performance, and those who a role to hold companies and investors to account.

3. **Targets:** The consultation paper states: "We do not require transition plans to be tied to any particular emissions target such as net zero and/or temperature outcome such as 1.5°C. However, entities will be free to disclose if they have done so." (P.27) We consider that this misses an opportunity to create a common standard for targets, and is likely to lead to differing transition frameworks, a lack of comparability across Reporting Entities and a lack of usefulness for the disclosures.

We note that the TCFD's recently updated guidance now emphasises the need to consider the 1.5°C ambition as a way to explore transition risk. (P.27) The XRB consultation paper considers this guidance in specifying two of the scenarios (one of which would be consistent with a 1.5°C pathway). It is therefore surprising that the standard for transition plans is not required to be comparable with a 1.5°C pathway in terms of emissions reductions, target intervals and a 2050 timeframe.

New Zealand's policy is to transition to net zero by 2050, with the aim to stay within a 1.5°C threshold, and it would be logical for the disclosure framework to require reporting according to the same standard, intervals and pathway. It would also be logical for timeframes to align with the emissions budgets under government legislation.

This would provide the consistency in describing the transition plan that is required. Otherwise transition plans are likely to be impossible to compare across Reporting Entities and of limited use to primary users, let alone others.

For consistency, comparability and usefulness for policy-makers, transition plans should be expressed in terms of emissions reductions from a common baseline, emissions at 5 yearly intervals coinciding with NZ Government emissions budgets, continuing to at least 2050 and with a comparison to a 1.5°C pathway.

4. **Consistency and comparability:** In addition to the specific issue of targets outlined above, there is too much scope for choice in measures, scenarios and definitions. The climate disclosure standard needs to result in reporting that is credible and comparable across reporting entities. Otherwise, it is of limited use to actual and potential investors and other primary users, let alone other users.

Comparability is impossible if there is such a wide range of user definition in fundamental choices around metrics and scenarios. For example, the lack of a government standard for scenario data makes reporting more uncertain, more costly, less comparable and less useful. This is particularly important for smaller reporting entities.

Credibility will be undermined by reporting entities (understandably) choosing metrics and scenarios that show their organisation in a favourable light. The standardisation of some elements, such as through the use of baseline scenarios from the government, will make the reporting process simpler, less costly, more robust and more comparable.

The standards should be underpinned by a common dataset for physical and transition risks that would enable Reporting Entities to be efficiently, and more cost effectively construct scenarios and disclosures that have a common base of data.

5. **Just transition:** Disclosure should include anticipated impacts on vulnerable groups in society, as part of the double materiality approach. This could be incorporated into the table of cross-industry metrics. (P.32)

The standards should include an assessment of the impacts and risks on vulnerable groups in society as a result of the impacts and actions of the Reporting Entity.

Response to Questions

We have responded to the questions posed for the consultations.

1. *Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?*

No. There are three main areas of concern:

- The framework of single materiality does not meet the needs of the primary users whose mandate and business purpose are not solely profit maximisation but include stakeholder interests and/or a business purpose for social and environmental benefit.
- The lack of standards for targets and measures that are consistent with the net zero policy framework undermines the integrity of the reporting and makes comparability difficult if not impossible.
- The lack of common data sources and a common baseline for scenario planning also undermines the integrity and comparability of reporting.

2. *Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary?*

Yes

3. *Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used?*

No. The lack of common data sources and a common baseline for scenario planning also undermines the integrity and comparability of reporting.

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?*

No. The lack of standards for targets and measures that are consistent with the net zero policy framework undermines the integrity of the reporting and makes comparability difficult if not impossible.

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

No.

6. *The XRB has identified adoption provisions.*

Agree.

7. *Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?*

No. The correct balance between a principles-based approach and a prescriptive approach has not been achieved. The lack of specifics around measures, targets and scenarios in particular will undermine the needs for primary users to have confidence in the integrity of the disclosures and make it difficult if not impossible for them to compare across Reporting Entities.

8. *We have not specified industry-specific metrics. Do you believe we should include a list of required metrics by industry?*

Yes. This is important for data integrity and comparability.

9. *We will require disclosure of scope 3 value chain emissions as part of this standard.*

Agree.

10. *Requirements relating to the disclosure of GHG emissions*

Not sure.

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

No comments.

12. *The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. D.*

Agree.

13. *The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance.*

Agree that this issue should be re-visited.

14. The XRB has proposed a definition of material.

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The choice of single or double materiality is a fundamental decision and one that we consider is central to the legitimacy and credibility of the climate disclosure regime. As the consultation paper outlines, this decision affects a number of aspects of the disclosure framework: “We are aware that adopting a double materiality approach would require us to apply a different lens when deciding what disclosure requirements should be included in standards, and who the primary users may be.” (Consultation P.51)

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

No.

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