

1 May 2022

To: Dr Amelia Sharman

Director Climate Standards

External Reporting Board (XRB), Level 7, 50 Manners Street

Wellington 6142

New Zealand.

Subject: Submission Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures. Strategy, and Metrics and Targets Consultation

Dear Dr Sharman,

Thank you for the opportunity to provide comment on the draft Strategy, and Metrics and Targets Consultation sections of the Aotearoa New Zealand Climate Standard 1 – Climate-related Disclosures (NZ CS1). The consultation document is an excellent start to introduce an effective climate-related disclosure regime that supports New Zealand’s pathway towards to a sustainable and low emissions economy. I’m supportive of the upcoming legislation and the Standard.

For context, I am a Lecturer in Accounting at Victoria University of Wellington. My research interests are focused on organisations and climate change responses, carbon accounting for business activities, the analysis of corporate environmental disclosures, and business responses to environmental issues. My primary research has focused on science-based emissions reduction targets, the Paris Accord, and the mechanisms organisations are taking in their planning and control functions to achieve such greenhouse gas emissions reductions. I received my PhD from the University of Canterbury and in December 2021, I joined the School of Accounting and Commercial Law, Victoria University of Wellington. Prior to my academic career, I worked in the finance industry in New Zealand.

Please find below my response to the consultation document. The opinions expressed are my own and do not necessarily reflect those of my employer. I’ve kept my responses succinct by highlighting five areas of note including planetary boundary, strategy, targets, scope 3 emissions and assurance:

1. Planetary boundary

While the planet has its ecological limits, economic growth has none. It is necessary to make sure that companies use natural resources only up to a point which allows the Earth to recover and maintain its function, that is, to ensure ecological resilience. As per the planetary boundaries framework, scientists suggested a global carbon emissions threshold of 350 ppm CO₂ above the pre-industrial level (the years from 1850 to 1900) which provides a reasonable chance of limiting future warming to 1.5°C. If we, as humankind, surpass these indicated tipping points, the entire system could destabilise and therefore, the future for humanity on earth may not be sustainable.

There is an increased number of companies disclosing their emissions reduction targets and performance against these targets. However, it is difficult to get a reliable view of whether the companies are on track to meet their climate targets because targets are set for different time periods and companies have often not set or reported progress against targets for a continuous long period of time. Additionally, an approach to disclose a substantial reduction in emissions volume at their corporate level may actually conceal unsustainable performance if their performance is not considered in the ecological context. “Accounting for sustainability takes the planet as its accounting entity” (Gray et al., 2010 and Gray R., Milne MJ, 2019ⁱ). Corporate climate reporting boundaries need to be defined in a way that reflects the actual boundaries of ecosystem sustainability.

Climate reporting entities should align their strategies with the global emissions reduction targets, and set science-based targets to help accelerate the transition to a low carbon economy and avoid the catastrophic climate breakdown.

2. **Strategy:** The disclosure objective in the section 6.1. Strategy: Proposed section is “*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 the expectations about the future performance of an entity.*”

The objective for the strategy disclosure has not considered how a climate reporting entity has operated and financed decarbonization activities and explicitly reallocates operating and financing activities to climate solutions at a rate that is consistent with global climate targets,

i.e, 1.5°C scenario. The mitigation strategies should encourage counterparties and portfolio companies in all sectors to also set and achieve targets at the scale required to effectively achieve the emissions reduction target in line with global goals.

3. We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but those entities will be free to disclose this if they have done so. Do you agree? Why or why not?

The scientific community in the Intergovernmental Panel on Climate Change (IPCC) Special Report on 1.5°C has clearly stated the need to limit global temperature rise to 1.5°C above pre-industrial levels and reach net-zero CO₂ emissions by 2050 as the best chance of avoiding catastrophic impacts of climate change on human society and nature. In order to achieve the target, the world needs to half carbon dioxide (CO₂) emissions by around 2030 and reach net-zero CO₂ emissions by mid-century.

Targets must be framed in a way that will have the most effect on driving the reporting entities' financing and operating activities, but arguably targets are only meaningful if they are set based on planetary boundary principles, i.e., a "fair share" of the total GHG emissions reductions required to meet widely accepted 1.5°C goal. The focus should not lie simply on a reduction in exposure to emissions within portfolios but, instead, on ensuring portfolio companies set science-based targets and reduce their own emissions consistently with relevant 1.5°C pathways.

4. 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?

To ensure the completeness of the disclosure, climate reporting entities should cover all relevant scope 3 GHG emissions, including the category 15 Financed Emissions which should cover the portfolio companies' scope 1, scope 2 and relevant scope 3 emissions. Measuring financed emissions would enable the climate reporting entities to identify carbon-intensive hotspots and develop innovative carbon-reduced products for their clients. It enables them to take informed actions to decarbonize their portfolio in order to minimize climate risks, maximize opportunities and assess portfolio alignment in the context of 1.5°C global target. Disclosing the relevant scope 3 emissions allows stakeholders to make accurate sustainability assessments in their decision-making.

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

That quantification of emissions data from each scope is subject to scientific and estimation uncertainties poses challenges for the emissions assurance process. The level of inherent uncertainty in the collection and reporting of emissions highlights the need for independent assurance to add credibility to the reported emissions disclosures. Therefore, it is crucial for assurance providers to provide reasonable assurance to entities and effectively communicate the assurance function and limitations, if any, to the users of the assurance report.

The highest level of assurance will help the climate reporting entities avoid the perception that such statements or disclosures are merely ‘greenwashing’, i.e., selective disclosure of positive information without full disclosure of negative information. This level of assurance adopted will allow companies to assure their stakeholders that they undertake best practices and are making an absolute reduction in their GHG emissions. Verified emissions data brings confidence to stakeholders that the information and associated statements included in reports represent a true and fair account of a company’s emissions. I believe reasonable assurance is feasible over GHG emissions metrics and is an appropriate level of assurance to provide transparency and accountability to stakeholders.

If you require further information about this submission, please do not hesitate to contact me.

Yours sincerely,

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ⁱ Gray, R., Bebbington, J. and Gray, S. eds., 2010. *Social and environmental accounting*. Sage.

Gray, R., & Milne, M. J. (2019). Species extinction and closing the loop of argument: Imagining accounting and finance as the potential cause of human extinction. *Around the worlds in*, 80, 119-132.