

2 May 2022

External Reporting Board
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Via email: climate@xrb.govt.nz

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Dear Sir/Madam,

Climate-related Disclosures (NZ CS1), Strategy and Metrics and Targets Consultation Document

CPA Australia welcomes the opportunity to further respond to Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) (the “Consultation Paper”).

CPA Australia represents the diverse interests of more than 170,000 members, including over 2,700 members in New Zealand, working in over a 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

We welcome the overall direction of the recommendations set out in the Consultation Paper and agree with the principles underlying the proposed Climate Standard with the key areas of Strategy and Metrics and Targets being dealt with in this consultation.

We are also aware that the International Sustainability Standards Board (ISSB) recently released its initial two exposure drafts. In drafting our response, we have reflected on the potential impact that these exposure drafts, notably IFRS S2: *Climate-related Disclosures*, may have on the work of XRB, and moreover what inspiration can potentially be drawn from the work of the ISSB.

Strategy, and its role within sustainability-related disclosures is a complex and multi-faceted dimension. It is therefore not surprising that most of our commentary results from our review of that section. We note the continued challenges posed by the interpretation of the TCFD recommendations into a standard that would fit the purposes of Aotearoa New Zealand.

Our recommendations have been drafted with a view towards the practical issues that preparers, assurers, and users of NZ CS1 may face, and we trust that this will add value to the consultation process.



Please see attached answers to the questions included in the Consultation Paper.

If you require further information, or elaboration of the views expressed in this submission, please contact Patrick Viljoen, Senior Manager ESG, on patrick.viljoen@cpaaustalia.com.au

Your sincerely



Gary Pflugrath
Executive General Manager
Policy and Advocacy



Rick Jones
Country Head New Zealand

Appendix: Detailed responses to the questions put forward by the XRB in the Consultation Paper.

Question 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?**

CPA Australia notes that the Strategy section of NZ CS1 is based on the recommendations put forward by the TCFD. The TCFD recommendations aid user understanding and provides preparers with an opportunity to report in a transparent and comprehensive manner on how organisational strategies need to adapt and evidence resilience. We are therefore of the opinion that the Strategy section does meet primary user needs.

With regards to question 1(b) we have the following comments and suggestions.

- Paragraph 3(a-d) puts forward the recommendations of the TCFD, notably the three key dimensions of reporting that are required from reporting entities. We note that the XRB has opted to break out the third dimension of the TCFD recommendations into two separate sections, being 3(c) and 3(d) respectively.
- Paragraph 3(b) requires Climate Reporting Entities (CREs) to describe the impact of climate-related risks and opportunities. We would recommend that only material risk and opportunities should be described. This would aid the reporting and prevent excessive information being presented.

With regards to question 1(c) we believe that the both the level of comprehensiveness and balance between prescriptiveness and principles-based disclosures are adequate.

Question 2

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

Although we endorse the importance of viewing the impacts of climate-related risks and opportunities on the business model, strategy and financial planning of an entity, the below points highlight additional considerations.

Two main situations could present themselves in this instance. Firstly, a scenario where a CRE does not present its strategy and business model as part of its corporate reporting, and a scenario where the CRE has disclosed its strategy and business model.

In the first instance, primary users of these reports would benefit from an understanding of the strategy and business model of the relevant CRE. Where the relevant CRE already discloses its strategy and business model in other reporting instruments, it would be important to cross-reference the requirements of paragraph 5(a) with these.

Question 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?

We agree with the XRB’s recommendation of requiring a ‘greater than 2°C scenario’. Several considerations are however noted as a result.

Cross industry benchmarking and comparability of scenario analysis may initially be diverse, depending on the opinion of where above 2°C an entity should model, particularly amongst decision-makers and senior managers of the reporting entity.

Testing for the credibility of projections, in the absence of an industry average, would also likely add to the assurance burden.

Importance should be placed on the implications of the impact on the business model of the reporting entity and subsequently not on the where on the range of values greater than 2°C the entity has chosen to model.

Question 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?

We do not wholly agree with this recommendation.

Paragraph 5(e) in isolation does not indicate any target to be disclosed. The definition of a transition plan (Table 4) however indicates targets to be used, but only in conjunction with those that would align with a low-carbon state.

If NZ CS1 is to succeed in the target that it has set for itself to be ambitious and forward looking¹, it would be prudent to link any transition plan to the entity’s contribution to 1.5°C at the very least.

It is our opinion that this would align to the broader NDC commitments of Aotearoa New Zealand more broadly and provide a clear understanding of how these broader commitments cascade down to reporting entities.

Question 5

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

We agree with the defined terms as they are currently proposed with two exceptions noted below.

Term	Current wording	Comments
Climate-related scenario	Note that climate-related scenarios are not intended to be probabilistic or predictive, or to identify the ‘most likely’ outcome(s) of climate change.	The definition indicates what would not constitute a climate-related scenario. An addition of what does constitute a climate-related scenario would aid understanding.
Adaptation plans		Refer to our comments on Question 4 above.

¹ Message from the Chair and Chief Executive, Page 6.

Question 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?

We agree with the need for first-time adoption provisions. This is in recognition that not all entities will have progressed on their sustainability journey to the same degree.

We do not believe that any other first-time adoption provisions, apart from those specified, would be required. The ambition set by the XRB in this instance is sufficient.

Question 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?

We agree that the proposed Metrics and Targets section of NZ CS1 meets primary user needs.

Question 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

In answering this question, we reflect on the ISSB's work in its Exposure Draft IFRS S2: *Climate-related Disclosures*. This standard includes the work of SASB to provide industry related disclosure standards and metrics, notably as an appendix to the main standard document. It is important to note that this work also encompasses the TCFD recommendations and builds on the TRWG prototype.

We are therefore comfortable that this work provides a robust baseline and standard that could be used by reporting entities in Aotearoa New Zealand. We concur with the XRBs position to not include this as part of NZ CS1.

Question 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?

We are aware of the complexities of measuring Scope 3 emissions. This is particularly linked to data scarcity and inconsistency.

Some important considerations that we highlight for consideration by the XRB include:

- Mechanisms of double counting, particularly where Scope 3 emissions are incorporated into portfolio carbon footprints. This would impact both the sources of information (as discussed below) and the role of assurance providers to provide comfort.
- Investment in the development of information sources to ensure the availability of quality and consistent data.

Question 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?

Answered in conjunction with Question 11 (Originally Question 13) below.

Question 11 (Question 13 on the XRB's list)

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

We support the proposal to set the minimum level of assurance for GHG emission at limited assurance for the reasons stated in the consultation. We make the following additional observations and request further consideration be given to these in progressing these proposals:

- The Consultation Paper notes that setting the minimum level of assurance for GHG emissions at limited assurance should be revisited after a "suitable period of time" once the assurance regime has commenced. We suggest that consideration be given to what will be a suitable period of time for such a revisit. We also suggest that any future consideration of the level of assurance should be part of a formal post implementation review of the climate reporting requirements of which the assurance forms part.
- Although the proposed climate statement will only require GHG emissions disclosures to be included, we agree that such disclosures will need to be based on information prepared in accordance with suitable measurement criteria. The proposals therefore require a GHG emission report to be prepared to support the GHG emissions disclosures in the climate statement. The consultation proposes that the GHG emissions report that forms the basis of the GHG emissions disclosures included in the climate statement should also be subject to limited assurance. It is not clear whether the legislative mandate to require an assurance engagement over GHG emissions disclosures included in the climate statement extends to requiring an assurance engagement over a GHG emissions report.

- The Consultation Paper notes that the GHG emissions report will need to be prepared in accordance with a generally accepted methodology but does not propose to mandate a single approach for its preparation and the preparation of the associated GHG emissions disclosures that will form part of the climate statement. To ensure consistency and comparability of the GHG information, we suggest that the XRB considers mandating a single approach for the preparation of the GHG emissions report and associated disclosures.
- We note that the XRB will be engaging separately around applicable assurance requirements over the course of 2022. We look forward to participating in the consultations on this matter. Although we acknowledge that the XRB does not establish requirements as to who can conduct the assurance engagement, we look forward to working with the New Zealand government in developing a competency and regulatory framework that establishes criteria for assurance practitioners who undertake such assurance engagements.

Question 12 (Question 11 on the XRB's list)

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

We do not have any comments on the defined terms as they are proposed.

Question 12 (Question 12 on the XRB's list)

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?

We agree with the XRB's decision not to provide first-time adoption provisions. We believe this embeds ambition into NZ CS1.

From a practical perspective we would presume that for some organisations that are on the earlier phase of their journey there would be an expectation for a limited set of headline metrics and target. We are of the opinion that this could set a baseline for measurement.

As reporting entities subsequently progress on their sustainability journey, metrics would presumably be refined, broadened, or indeed grow to become more sophisticated.

An additional point to the above is outlined in our response to Question 4, where we highlighted the importance of anchoring metrics and targets against broader macro commitments.

Question 13 (Question 14 on the XRB's list)

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?

We note that the use of materiality links to the concept of enterprise value and against various time dimensions. This definition links strongly with the work of the ISSB in defining materiality. We are however concerned around the focus on enterprise value that explicitly excludes stakeholders outside of the providers of funding to reporting entities.

Our concern with this definition can be best illustrated through an example.

How would reporting entities mediate conflicts of concern when gauging the inclusion of material impacts? For example, a reporting entity needing to balance between the social impact of operations on a particular group that may lead to longer-term reputational damage that falls outside of the scope of consideration on providers of funds who may be operating with shorter investment periods.

We propose detaching materiality from a single stakeholder group, which in our opinion would engender more comprehensive thinking about the full scope of impacts that reporting entities could cause.

Question 14 (Question 15 on the XRB's list)

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

We have no additional comments.