



Level 4, Hope Gibbons Building, 7-11 Dixon Street, Wellington.  
PO Box 11508 Manners Street, Wellington 6142  
T: +64 (0) 4 385 2839, e: [admin@cep.org.nz](mailto:admin@cep.org.nz), w: [www.cep.org.nz](http://www.cep.org.nz)

External Reporting Board,  
PO Box 11250,  
Manners St,  
Wellington, 6142

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Submitted via email

Submission on:

## **Climate-related Disclosures NZ CS1**

By Carbon and Energy Professionals New Zealand

## INTRODUCTION

CEP welcomes the opportunity to comment on the XRB's Climate-related Disclosures consultation. CEP has long advocated for mandatory climate-related disclosures. We wish the XRB well in introducing an effective disclosure environment for climate-related issues.

For context, CEP is the professional body that represents energy efficiency and carbon professionals in New Zealand. We train and certify individuals in a wide array of energy efficiency, carbon management and carbon measurement disciplines.

CEP is affiliated with Engineering New Zealand as a Collaborating Technical Society. The CEP membership comprises expert level practitioners in energy efficiency and carbon management, the people who will deliver carbon reductions across the New Zealand business environment.

CEP is a not-for-profit Incorporated Society. Supporting effective energy, carbon and sustainability management is embedded in our constitution.

CEP has an interest in climate-related financial disclosures as many of our members and certification holders will be directly involved in the assessment and mitigation of climate related risk.

## RESPONSES TO QUESTIONS

Our comments on the questions raised by the XRB are:

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 .

**The information outlined in this section will be useful to primary users. Its degree of usefulness, however, will depend on clarity of presentation and while over-prescription on reporting style lies outside the scope of the Standards, monitoring of effectiveness and updating of guidance will be valuable.**

- 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?

**This section is relatively clear and should provide few problems of interpretation.**

- 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?

**The section is appropriately detailed to provide the desired guidance.**

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

**The critical outcome is that primary users can readily identify key aspects of the business model and strategy and how these potentially impact and are impacted by climate change. Whether this is achieved by a stand alone disclosure or is clearly identifiable when contained in existing reports is less important than identifiability and clarity of content.**

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?

**The risk is that if specific rates are not prescribed, entities will adopt different rates and render comparison across entities irrelevant to primary users. To facilitate comparison, we favour prescribing a scenario or rate of temperature increase.**

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?

**It would be inappropriate for the XRB to impose emission targets on individual businesses. It is important, however, that key aspects of emissions are reported and that guidelines strongly encourage the setting of ambitious targets and require the disclosure of risks related to failure to achieve targets. For example, a simple probability distribution around likelihood of achieving stated targets would be a useful piece of information for primary users along with narrative on the implications of missing targets. That way primary users will have an indication of likelihood and magnitude of risk associated with missing a target.**

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

**The definitions are clear. The inclusion of enterprise value in the list is worth considering as it appears in the definition of materiality.**

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?

**The first time adoption provisions look reasonable.**

- 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.

**Full adoption as soon as practical is important and we encourage concessions around adoption timing to be minimised. We see no other, obvious, areas for first-time adoption provision.**

- c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

**Not applicable.**

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.

**Yes, this information will be useful to primary users. Additional, useful information would include disclosure of the geographic boundaries of the reported emissions where relevant.**

- 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?

**Allowance should be made to ease reporting for organisations reporting under ISO14064 -1:2018, which uses six categories. While these readily map to the more common three Scopes, allowance for direct reporting within the six-category framework would ease reporting for many entities.**

- 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?

**A critical aspect of the utility of disclosures to primary users is that they facilitate comparisons across entities as well as providing useful information in isolation. This requires consistent (but not necessarily the same) metrics are used and a level of prescription may be required to deliver this consistency. Beyond the provision of consistency for comparison, principles based disclosures are appropriate.**

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?

**The critical consideration should be that outputs allow valid comparisons by primary users. This means sources of industry-specific metrics should be consistent. If this requires specific metrics or specification of a limited number of sources of metrics this should be considered. Reliance on guidance for sourcing metrics should be adequate, however, the sources of metrics cited should be monitored to ensure consistency.**

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?

**The main difficulty with including Scope 3 emissions will arise from the collection of data from the supply chain and its accuracy. While CERs will likely have effective data collection and reporting systems, it is to be expected that many in their supply chains will not. There will result a strong reliance on dollar denominated invoice data rather than consumption data and the inaccuracies that will inevitably follow through the application of assumptions. This will be exacerbated by the accuracy of attribution by the supply chain. The result will be heavy reliance on assumptions on attribution and use of appropriate emissions factors. For wide value chains, expediency of data collection may also emerge as a problem. Presently, it should be expected that Scope 3 reporting will be inaccurate because of the numerous assumptions that will be involved. Over time, this will improve but unless sophisticated, cross company systems of reporting become commonplace, the reliance on assumptions (including attribution assumptions) poses the main threat to accuracy.**

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?

**The most important consideration is that organisations who have already adopted or are considering adopting ISO14064 are not disadvantaged through cost implications or administrative burden. We understand ISO14064 is the most common internationally recognised reporting procedure in use in New Zealand and adding cost for its use would be inequitable.**

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

**While the defined terms are not wholly inconsistent with ISO14064, the definitions would benefit from review against ISO14064 definitions as this is the protocol used by many CERs.**

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?

**First-time adoption provisions for metrics and targets are not required.**

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

**While entities should be encouraged to seek stronger assurance, at introduction limited assurance is a reasonable starting point.**

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?

**Inclusion of "including the long term" is superfluous given the preceding wording. However, to conclude the definition with "across all time horizons" seems open and, by strict definition, would include an assessment of materiality for each discrete second in the future. Perhaps wording that referred to "short, medium and long term" would convey more clearly the need to acknowledge the range of time horizons intended. Definitions of short, medium and long would further reduce risk of misinterpretation.**

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

**None**



CEO  
Carbon and Energy Professionals New Zealand  
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