

Submission

Aotearoa New Zealand Climate Standard 1:

Climate-related Disclosures: Strategy and Metrics and Targets

2 May 2022

Overview

The Responsible Investment Association Australasia (RIAA) thanks the External Reporting Board (XRB) for the opportunity to comment on its latest proposals for 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) (the Standard).

RIAA congratulates the XRB for its robust proposal for a mandatory standard for disclosure of climate-related information, establishing Aotearoa New Zealand as an international frontrunner on mandatory disclosure. The XRB Standard is an opportunity to effectively set a benchmark for global standards and significantly improve the extent and accuracy of climate-related information in markets. It will enable investors and others to more accurately gauge the risks and value of companies, and to make better-informed decisions. It will ultimately boost efforts towards reducing greenhouse gas (GHG) emissions in line with the Paris Agreement goal.

While RIAA supports the XRB's proposals overall, this submission recommends changes to enhance the clarity and comparability of disclosures, and better align the Standard with the objectives of the disclosure regime.

At a high level, the key focus for our submission is to ensure that:

- The XRB Standard is linked to a national emissions reduction target as set out in the *Climate Change Response (Zero Carbon) Amendment Act 2019* (Zero Carbon Act) and aligned with 1.5 degrees, to ensure consistency of reporting entity objectives with the national objective.
- The XRB leads a process to develop scenarios aligned with this national target, including input by investors, to ensure where possible that reporting entities report in accordance with consistent scenarios.
- The consideration of materiality seeks to align with an emerging global view that is beyond merely enterprise value, and recognises the impacts a reporting entity has on the environment.
- The XRB considers, and makes reporting entities consider, social aspects of climate risks and impacts, through the explicit inclusion of reference to the importance of a just transition.

Recommendations

1. Provide guidance that reporting entities address 'just transition' issues in Strategy disclosures.
2. Prescribe specific RCPs for higher physical risk scenarios.
3. Lead the process of developing industry-specific scenario analyses, to provide governance and independence to the process, and improve the comparability and clarity of scenarios.
4. Require transition plans to link to targets under the Zero Carbon Act.
5. Define 'primary user' to include regulators and supervisors.
6. A phased approach to industry-specific metrics, including leaving open the option of specifying industry metrics where necessary in future, and engaging with the ISSB with the aim of ensuring a robust global standard in future.
7. Provide guidance on 'materiality', considering the international trend towards a broader approach.

Strategy

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

Overall, the Strategy section will significantly improve the information which investors and others use in their decision-making. We have commented on specific issues further below.

One gap in the proposed Strategy disclosure requirements is for reporting entities to disclose how they are working towards a 'just transition' away from carbon-intensive industries and adaptation to various global warming scenarios. Just transition is a growing concern for many industries and regions globally. It would be useful for companies to identify the people and places which are more reliant on carbon-intensive industries, and/or are more vulnerable to the impacts of global warming (such as loss of employment in resources or tourism, or the likely health effects of a changed climate). This should then be considered in the company's strategy.

Many users of these mandated disclosures will have a strong interest in understanding how the company proposes to contribute to or manage the transition in ways which are both environmentally and socially responsible and sustainable in the longer term. Investor interest in people and places being further disadvantaged and harmed by transition and adaptation to global warming will inevitably increase with the impacts felt of climate change.

Recommendation 1: That the XRB provide guidance that reporting entities address 'just transition' issues in Strategy disclosures.

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

We agree with this approach, particularly because it broadly aligns with the approach of the TCFD framework and ISSB Exposure Draft. It is important for investors and others to understand not only the current position and metrics of a company but the pathway that the company has set out, for example, to reduce GHG emissions or to adapt to various scenarios. This information is critical in evaluating the risks and opportunities which will impact the longer-term value of an investment.

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 do not agree with this approach.

While we understand the value in industry working to develop specific scenarios, it would be preferable for the XRB to set scenarios of best and worst assumptions, and in between, for example, 1.5, 2 and 3 degrees. This would provide the consistency and comparability required of the scenarios.

In addition to the XRB prescribing temperature increase scenarios, an XRB-led industry-specific scenario analysis development process – which includes investors in the process and outcomes – would be ideal for several reasons:

- it could be quicker than parallel individual industry-led processes, by drawing on common challenges and knowledge,
- it would standardise scenario analyses, making them clearer and comparable for all types of users, including large investors analysing a multitude of companies across different industries, as well as less informed investors.

- it would improve the governance and independence of the scenario analyses process, reducing the risks of, for example, industries producing scenarios that cast them in an overly-positive light at the expense of greater transparency for investors and others.

Recommendation 2: That the XRB prescribe specific RCPs for higher physical risk scenarios.

Recommendation 3: That the XRB lead the process of developing industry-specific scenario analyses, to provide governance and independence to the process, and improve the comparability and clarity of scenarios.

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 agree with this approach.

Large listed companies should report their strategies under this Standard in the context of a national shift to net zero emissions by 2050, and a goal of warming of no more than 1.5 degrees above pre-industrial levels. It is important that reporting entities are engaged with the national goals and disclose this transparently.

Recommendation 4: That the Standard require transition plans to link to targets under the Zero Carbon Act.

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

We note that 'primary users' has been defined as *'Existing and potential investors, lenders and other creditors'*, in line with the International Sustainability Standards Board (ISSB) Exposure Draft *Climate-related Disclosures Standard*.

While we appreciate the importance of aligning the XRB Standard with the draft of the emerging international standard, we reiterate our view that regulators (including supervisors) should be incorporated into the definition of *primary users*. While regulators can access the same information on demand in an ad hoc manner, having standardised, regular disclosures will assist supervision and enforcement. Recognising the broader significance of these mandatory disclosures is necessary to deliver the public accountability expected of the disclosure regime.

Recommendation 5: The definition of 'primary users' should include regulators and supervisors.

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?**

The proposed first-time adoption provisions should be conducive to accurate and comprehensive disclosures in a timely manner. We do not recommend any additional first-time disclosure provisions.

Metrics and Targets

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

Overall, the metrics and targets disclosure requirements will make a significant difference to the ability of investors and others to understand a company's position and progress over time.

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?

We agree with the approach of referring reporting entities to industry-specific metrics, particularly to ensure ongoing alignment with international standards. Because the ISSB intends to introduce its standards by late-2022, and effectively replace the currently TCFD disclosure framework and SASB industry-specific metrics, the ISSB standards are likely to be the prevailing international standards in the near future.

Given the ISSB standards are not finalised, and the TCFD is currently the prevailing global framework, the XRB's approach should be phased as follows:

- refer to the TCFD recommendations initially,
- on adoption of the ISSB standard, refer to the ISSB Standard, and
- leave open the option of the XRB specifying industry metrics in future, where that approach is necessary or desirable to better understand the position and progress of particular companies and industries in NZ.

For this to be an effective approach in the longer term, the Government, including the XRB, should actively participate in the development of the ISSB standards, with the aim of ensuring a robust global standard for the future, and promptly adopt the ISSB Standard.

Recommendation 6: That the XRB:

- take a phased approach to industry-specific metrics,
- leave open the option of specifying industry metrics where necessary in future, and
- engage with the ISSB with the aim of ensuring a robust global standard in future.

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?

While there will be challenges in measurement and reporting of some aspects of scope 3 emissions, RIAA strongly supports the mandatory disclosure of scope 3 emissions under the XRB Standard. This is welcome progress beyond the TCFD and alignment with the ISSB Standard on this aspect will be critical for comprehensive and comparable disclosures.

In terms of challenges, for investors as reporting entities:

- it is unclear how, for example, a fund manager with multiple funds should disclose scope 3 emissions under the Standard, and
- in the earlier reporting periods, there will be significant variance in the scope 3 disclosure of investee companies.

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?

We have no comments.

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

We have no comments.

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?

We agree with this approach.

As we identified in our submission on the proposed Governance and Risk management sections of the Standard, there will be incomplete data in the early reporting periods for entities at the end of the investment value chain. While the lack of first-time disclosure requirements will present challenges for reporting entities, in our view there should not be first-time provisions. These challenges can be addressed through clear disclosure of things such as methodology, including any proxies used, and the proportion of the portfolio that is being disclosed.

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

We agree with this approach, noting that there may be challenges in the early reporting periods (similar to those outlined above).

Materiality

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?

The XRB should reconsider 'materiality', given the emerging global view that it goes beyond a narrow interpretation of 'enterprise value'.

The XRB's proposed materiality definition broadly aligns with the draft ISSB 'enterprise value' approach but not the EU Sustainable Finance Disclosure Regulation's 'double materiality' approach, which is considered the higher benchmark and will become increasingly influential globally. The XRB should consider that investors, beneficiaries and the public want to know the impact of a company on the environment and society – this is of critical importance in decision-making.

Given the varied international approaches, reporting entities will need clear, detailed guidance from the XRB on how to apply the materiality definition. For example, the XRB could expand on point 12 in the proposed Materiality section and draw on the ISSB's statement that:

Information that could be relevant to the assessment of enterprise value is broader than information reported in the financial statements. It includes information about a company's impacts and dependencies on people, the planet and the economy when relevant to the assessment of the company's enterprise value.¹

Recommendation 7: That the XRB provide guidance on 'materiality', considering the international trend towards a broader approach.

About RIAA and our members

RIAA champions responsible investing and a sustainable financial system in New Zealand and Australia and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy.

With over 450 members managing more than US\$29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across New Zealand and Australia. RIAA's membership includes superannuation funds, KiwiSaver default providers, fund managers, banks, consultants, researchers, brokers, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry, across the full value chain of institutional to retail investors.

¹ ISSB, [Snapshot of Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft S2 Climate-related Disclosures](#), page 3.