Submission

Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures

Strategy, and Metrics and Targets

NZCS1

April 2022

Introduction

Auckland Council Group (the group) thanks the External Reporting Board (XRB) for the opportunity to provide feedback on the consultation document "Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures, Strategy, and Metrics and Targets Consultation Document".

The group declared a climate emergency in June 2019, committing the group to necessary action to manage and mitigate climate-related risks and make use of the opportunity's climate change presents.

The group adopted Te Tāruke-ā-Tāwhiri: Auckland's Climate Plan in December 2020 as the region's long-term approach to climate action. The plan commits to reducing Auckland's regional GHG emissions by 50 per cent by 2030 and to achieve net zero emissions by 2050 while preparing for the impacts of climate change.

Climate action has been identified as a priority area for investment through the group's Long-term Plan 2021-2031 (LTP) with $152 million specifically allocated to climate action over the next 10 years. 2021 was the first year that Auckland Council had included a specific Climate Action Investment Package in its LTP.

Auckland Council (the council) became a signatory to the C-40 Cities Divest/Invest policy which commits the council to not invest in companies involved in the production of fossil fuels and champion investments in the green economy. The group has raised more than $1 billion in green bonds to finance and refinance projects such as electric trains and cycling infrastructure and were the first entity in NZ to issue a green bond. The council will be a mandatory participant in the proposed climate reporting regime due to the issuance of its bonds.

The council has been an early adopter of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations in New Zealand and has voluntarily disclosed under the framework for the last three years.

The council recognises that applying the recommended disclosures of the TCFD framework requires the group to make fundamental changes to our organisation to ensure climate risk management is embedded into our governance structures, strategic, and financial planning processes. We believe that these disclosures will enable more informed decision making that will benefit all stakeholders.

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

We consider that the Strategy section of NZ CS 1 is comprehensive and generally meets primary users' needs. However, we note the following:

- While there is an implied link between sector and entity specific risks and opportunities, and an entity's strategy, we consider that the importance of this is of such significance that it should be an explicit requirement to demonstrate.
- The outputs from the scenario models should be significant contributors to the development of strategy. The proposal sets out a non-prescriptive approach for the 'greater than 2°C scenario'. To enable comparability, we recommend the XRB make at least one higher than 2°C scenario mandatory. We recommend that the XRB mandates a 3.5°C scenario in line with the IPCC Representative Concentration Pathway 8.5.
- When identifying risks and quantifying the financial impacts of those risks, we consider that there should be disclosure that the assumptions are reasonable and complete.

1a. 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.

Generally, we agree that the information will be useful for primary users for decision making. However, we note that certain entities will need to consider commercial sensitivities.

1b. 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?

We consider that the section is clear and unambiguous. However, we would like to review this again once the draft NZ CS3 is available in July 2022.

1c. 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 support the approach taken in this section which sets out the intention of regulation rather than setting specific rules. We agree with a principles-based approach and that requirements need to be future-proofed to ensure the standard remains consistent with overseas jurisdictions and facilitates consistent and comparable reporting for primary users.

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 disclosing the entity's business model and relevant aspects of the strategy. For entities who report using other frameworks such as the integrated reporting framework, the business model will already be disclosed. If this is the case, entities should be able to reference that disclosure. However, consideration needs to be given to whether it provides sufficient information to illustrate how climate related risks are addressed and responded to at an enterprise level. We believe this information is necessary for primary users to assess whether climate related risk is considered throughout the entity or whether it is considered only within specific parts of an entity.

It also serves to illustrate to the primary user how impacts are understood at an enterprise level and interlinked between current and subsequent financial years. We note however, that for some non-commercial entities that the equivalent of a business model may be used, for example Auckland Council uses a Value Creation model. We recommend the guidance notes mention this.

We recommend that the XRB clearly states the objective the disclosing entity is trying to achieve by describing its entity's business model.

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?

To date, there has not been much use of climate scenarios in New Zealand. As a result, we believe that there is not yet enough experience to enable consensus on what the most appropriate scenarios might be. We agree that two scenarios are required and that the proposed guidance is reasonable for this early stage. However, we strongly recommend industry-based scenarios be developed as a matter of priority and we strongly recommend that XRB take a leading role with industry groups to develop these.

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?

In the absence of any legislated carbon reduction targets for entities, we do not consider that a transition plan should be tied to a particular target. However, it is our experience that for a transition plan to be meaningful an entity will likely have set a target, or suite of targets. We consider that it would be useful for entities to disclose the targets that their transition plan is tied to.

We recommend the XRB require entities to link their long-term mitigation target to an internationally recognised target (such as the Paris Agreement, or Net Zero 2050) mandatory. This is to ensure targets are aligned with scientifically backed targets. We suggest the XRB recommends entities disclose interim targets and their progress towards their long-term mitigation target, and provide commentary on their results to date.

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

We recommend that if there is a reference to the Paris Agreement or Net Zero 2050, these terms should be defined.

6. The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:

6a. Do you agree with the proposed first-time adoption provisions? Why or why not?

We agree with the first-time adoption provisions, particularly with the stepped approach. As an entity that started preparing to meet the TCFD framework reporting requirements more than two years ago, we recommend that there be some further consideration of timeframes. It is generally accepted that 3 years is required to develop sufficient maturity to disclose scenario analysis, for example, and the Canadian guide to adopting the TCFD recommendations for cities suggests a 5-year pathway. We recommend further discussion with affected entities to understand the potential timeframes and that at least one further interim step be implemented before full compliance is required. Further, we recommend that the XRB work with regulators to play a support role in the first few years that an entity adopts the standards.

6b. In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.

We consider that the first-time adoption relief proposed in the strategy section is sufficient and fit for purpose.

6c. If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

N/A

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

We consider that the Metrics and Targets section of NZ CS 1 is comprehensive and generally meets the primary user needs. However, please note the following for consideration:

- Some of the proposed guidance should be part of the standard to enable benchmarking of entities' performance.
- We recommend that the guidance be enhanced to include clear direction on selecting and disclosing boundaries. It will be particularly important for primary users to have visibility of where metrics and targets cover operational control or beyond.
- Section 7.6.3 states that entities should disclose those metrics they use for management of climate related risk. To enable informed decision-making there should be a balance of entity specific and sector/industry measures.

7a. 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.

We believe that the Metrics and Targets section of NZ CS 1 will provide the primary users with information that is useful for decision making. However, the level of detail required seems to be more than primary users would need to make decisions e.g. the methodologies and assumptions for the calculation and estimation of metrics and targets. Further, this is likely to lead to entities disclosing fewer metrics and targets. Mandatory reporting of scope 3 value chain emissions will create a lot of work and significant cost, but we believe their disclosure is necessary for transparency and accountability. We also recognise that there is an urgency to reduce all emissions to stay within 1.5°C.

7b. 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?

We generally agree that this section of the standard is clear and unambiguous in terms of the information to be disclosed. However, we would like more clarity around the following:

- What is expected of industry-specific metrics, and whether there will be general consensus as to what those industry-specific metrics might be for various industries. We are not aware, for example, of what specific metrics would be applicable to local government that we are not already measuring, even though we are sustainability professionals who have worked in local government for a considerable time. We recommend that the XRB provides guidance and recommendations on 'industry-specific' metrics. This will create consistency across industries which will enable primary users to make better judgements.

- The document mentions that "for each metric reported in the current period an entity must disclose at least two years of comparative information to provide a basis for tracking progress". Please clarify the frequency of the metrics, whether these are annual or quarterly, or something else.

- The standard should also clearly state if it is intended to align with the GHG Protocol or the ISO14064.

- Where new metrics are added, the standard should outline what the requirements are for prior period comparatives.

- The standard should clarify what needs to be disclosed when entities re-state any targets or metrics, as this is likely to happen in the first few years as entities work through measurement of their targets and metrics.

7c. 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 support principles-based standards. Most paragraphs of the proposed standard begin with: "an entity must disclose...", which makes the standard appear very prescriptive, and would easily lend itself to a "tickbox" approach. We recommend that the principle is outlined first, then "to achieve this, an entity may/could include the following information…".

Where possible, the standard should be future proofed e.g., referring to international standards of much larger jurisdictions for specific guidance e.g. TCFD, GHG Protocol etc. This is to ensure comparability of reporting between jurisdictions and removes the requirement for the XRB to continually update their guidance.

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 recommend that the standard refers to other international standards for examples of industry-specific metrics. Due to the nature of their business, some entities might not use "industry-specific" metrics, but use cross-industry metrics, and may not even have entity-specific metrics. We believe the standard should allow for this. If the objective of disclosing metrics is clear, then cross-industry, industry-specific and entity-specific metrics should be seen as no more than a means to achieving the objective.

Metrics should primarily reflect progress towards an entity achieving its long-term targets and should be ones that the entity uses internally to measure their performance. We do not believe it would be decision-useful for primary users to know how an entity is performing against prescribed metrics that may have little value or meaning for the entity. Metrics should be relevant, demonstrate progress towards climate targets, add value and have the capability to be altered or removed if the metric is no longer relevant.

It is difficult to comment on specific industry-specific metrics without knowing what industry-specific metrics the XRB are considering. In setting these metrics, we request that the XRB consider whether they might be difficult and costly to calculate, and whether in such cases, cross-industry or entity specific metrics used by the entity might suffice.

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 group is made up of 7 substantive different entities: Auckland Council, Watercare, Auckland Transport, Eke Panuku, Ports of Auckland Limited, Auckland Unlimited Limited and Regional Facilities Auckland. Auckland Council alone has around 8,000 suppliers. There is a significant amount of work and cost that is required to calculate scope 3 emissions with any accuracy, however we acknowledge the importance of it, particularly because scope 3 emissions account for a significant portion of our GHG inventories.

Each entity has its own way of calculating emissions (selection of boundaries and whether operational or financial control is adopted as part of boundary selection). We think it will be difficult to report on our emissions as a group due to this and would like to avoid the potential of double counting.

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?

To ensure consistent reporting, we recommend that any requirements around disclosure of scope 3 value chain emissions align with widely adopted reporting standards, such as The Greenhouse Gas Protocol, or the ISO14064 standard.

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

We recommend that the XRB includes definitions of cross-industry metrics and industry-specific metrics.

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?

It takes time to produce a comprehensive baseline that can be used to track performance against targets year on year. For this reason, we would recommend that entities should have a minimum of scope 1 and 2 emissions targets in the first year and can add further targets thereafter.

Measuring scope 3 emissions can be quite challenging costly and takes time, especially for entities with a significant number of suppliers or complex distribution networks. Many CREs are at different stages with their climate disclosures reporting, and first-time adopters will struggle to do comprehensive scope 1, 2, 3 disclosures in their first year. We recommend first-time adopters have more time to identify their scope 3 emissions to make comparison year on year more valuable.

In addition, performance against targets may not be measurable retrospectively, so comparatives should only be required prospectively i.e., in year 2, you report year 1 and 2's performance, and in year 3 you would report year 1, 2 and 3's performance.

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

We recommend scope 1 and 2 move to reasonable assurance within 1 year, and scope 3 move to reasonable assurance in 2-3 years. That means that in the initial stages of adoption, the minimal level of assurance for scope 1, 2, and 3 be set at limited assurance. Even for early adopters, scope 3 will be a challenge for entities to determine, disclose, and present with an auditable trail for indirect and direct value chain GHG emissions. Therefore, we recommend a gradual roll out approach over 2-3 years but no longer due to the urgency to reduce all emissions to stay within 1.5°C.

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?

Defining 'material' following the enterprise value's approach sets a solid foundation for for-profit entities to develop climate-related disclosures. Not all CRE's are for-profit, and Auckland Council Group, as an example, issues debt on the back of its ability to issue rates to Aucklanders in the event of default. We acknowledge the XRB's wish to align with ISSB, however we do not believe the enterprise value approach is fit for purpose in the public sector context. Whether we acknowledge the central government and its agencies as a primary user or not, the reality is that climate statements will be one of the tools used by them to inform policy decisions. For this reason, all entities should be using a materiality to focus on key areas of risk to the entity and the public.

We understand XRB's intention is to develop and include a double materiality approach in the future. We are of the view that the XRB should introduce double materiality into all aspects of NZ CS 1 now for the following reasons:

- The concept of 'affected stakeholders' is not included in the definition of primary users. We would like to highlight the need to include 'affected stakeholders' as we believe this concept would serve the information needs of public benefit entity stakeholders. Excluding public interest from the primary users is an exclusion of public benefit entity key stakeholder information needs.

- Materiality should reflect and meet the stakeholders needs from a financial materiality perspective and an impact materiality perspective. As the EFRAG defines on [Draft] ESRG 1 Double materiality conceptual guidelines for standard-setting Working paper published in January 2022:
  "*Double materiality is a concept which provides criteria for determination of whether a sustainability topic or information has to be included in the undertaking's sustainability report. Double materiality is the union (in mathematical terms, i.e., union of two sets, not intersection) of <u>impact materiality and financial materiality</u>. A sustainability topic or information meets therefore the criteria of double materiality if it is material from the impact perspective or from the financial perspective or from both of these two perspectives.*"

- Having a two-stage adoption approach to materiality will be costly and may result in significant re-work when the new approach is adopted. Under this approach entities would initially align risk management and governance structures to consider climate risk using the proposed enterprise value approach. If the concept of materiality is changed to a double materiality lens, entities will have to re-align their structures, which in our opinion is a suboptimal use of resources. This process will require more time and money. If the intention of the current proposal is easing entities' transition to a low-carbon economy, the proposal will make the transition and adaptation process harder and more costly overall.

- From a public benefit entity perspective, strategies and decisions are made considering potential adverse impacts on people and the environment that the entity is responsible for. It is important the XRB consider a double materiality approach to fulfil all entities' needs.

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

Domestic and International compatibility

We would like to reiterate that we support the XRB aligning NZ CS 1 with the TCFD's recommended disclosures and TWRG standards. This is to ensure that Aotearoa New Zealand's reporting is consistent with international reporting, particularly for entities that have investments or capital bases across the globe. As globally relevant climate-related disclosure standards are published, we would support closely aligning with them to enable international comparability.

Conclusion

Auckland Council Group thanks the External Reporting Board for the opportunity to provide feedback on the consultation document "Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures, Strategy, and Metrics and Targets Consultation Document". This standard will form the basis for entities to make better financial decisions and investments into sustainable and resilient solutions and help users to understand the financial implications associated with climate change.

We look forward to providing further input into the next stages of the consultation process.