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Tēnā koe April,

## RE: Climate-related Disclosures Consultation: NZCS1

Thank you for the opportunity to provide Grant Thornton New Zealand's feedback on the Climate-related Disclosures: Strategy, and Metrics and Targets consultation document, NZ CS 1.

### Background

Environment and sustainability are a priority for our firm. Grant Thornton strongly believes that the sustainable actions we take now will deliver positive outcomes for our environment in the future – something we all should be thinking about today and every day. Grant Thornton New Zealand has committed to a low carbon future and recently celebrated our Toitū Envirocare carbon zero certification.

### Feedback

Grant Thornton is supportive of the Climate-related Disclosures and outlines specific feedback in the appendix to this letter.

Nāku iti noa, nā



Michael Worth  
Partner, Consulting



David Pacey  
National Technical Partner, Audit

Appendix 1:

# Strategy and Metrics & Targets submission

## Response

### 1

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?

#### Response

- a) We agree the information in this section of the standard will provide information that is useful to primary users for decision making.
- b) We agree the standard is clear and unambiguous in terms of the information to be disclosed.
- c) This section of the standard is adequately comprehensive and could achieve the right balance between prescriptiveness and principles-based disclosures however, it assumes a level of maturity around scenario analysis and risk/opportunities assessment that we see as a weakness in many organisations. How to develop and understand the impacts of each input and the outputs from scenario-based modelling is not something that all organisations are adept at, and this is, in our opinion an area where organisations are likely to struggle. Risk maturity in many organisations is low and therefore the identification of relevant climate related risks to a business may be missed as many organisations rely on the opinion of senior managers not actual qualitative and quantitative risk evaluation.

### 2

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

#### Response

We agree that a standalone disclosure describing the entity's business model and strategy is necessary. This will allow the reader to understand an entity's commitment towards climate change as this will demonstrate the "tone at the top" approach which drives the strategy. Additional disclosures in the report can easily be linked back to the strategy allowing the report to be more meaningful rather than a "tick the box" exercise. as that shows the user the intentions and commitment for the entity towards climate change and will flow on to the further disclosures that are presented which will tie back to the business model and strategy.

### 3

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?

### Response

We do not agree that you should not prescribe what global mean temperatures should be used as to enable comparative data to be consistent then the scenarios used need to be consistent. If it is left to each organisation or sector to determine what temperature range to use it will be difficult to get comparative data that is meaningful and useful to primary decision makers who may sit outside the organisation.

It might also be useful to align the work you are doing in this space with the work of other regulators such as the Electricity Authority which already requires major participants in that sector to complete stress testing related to certain hydrological and demand scenarios. To remove the need for duplication of effort the requirements should be aligned to a single approach such as the temperature change ranges.

## 4

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?

### Response

We do not agree with the statement as there is a real need to get actual and meaningful comparative data therefore the targets used need to be consistent. If you want transparency for users to be able to make informed decisions, then the disclosure and setting of what targets to be used would be an essential element of this.

## 5

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

### Response

We do not have any specific observations on this question.

## 6

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

### Response

We support the proposed adoption provisions.

## 7

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

### Response

- The information in this section of the standard appears to provide information that will be useful to primary users and decision makers.
- The requirements are clear and unambiguous
- This section of the standard strikes the right balance between prescriptiveness and principles-based disclosures.

**8**

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?

**Response**

While we agree with the proposal not to include industry specific metrics, we would encourage an appendix (or otherwise) to direct preparers to relevant industry requirements.

**9**

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?

**Response**

Measuring staff commuting emissions will be difficult as they will have to be self-reported from each staff member, making the data prone to error. Measuring waste data will also be challenging due the nature of the data, specifically if the data is not measured (weighed) by a waste management service. Waste data will often be self-reported or if organisations share bins, it will likely have to be scaled in terms of FTE numbers with other firms (or similar method of estimation). It would be useful to have guidance on how to measure the different areas of scope 3 emissions, and have multiple methods for each scope 3 area, ordered by level of measurement accuracy to ensure the data is as precise as possible.

**10**

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?

**Response**

We do not have any concerns in relation to the proposed requirements.

**11**

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

**Response**

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

**12**

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?

**Response**

We support the proposed adoption provisions.

**13**

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

**Response**

We agree that the minimum level of assurance for GHG emissions should initially be set at limited assurance. Additionally, we note and agree with the XRB proposal that this level of assurance be reviewed at a subsequent date once GHG emission reporting and assurance is embedded within the New Zealand reporting landscape (i.e., next few years).

## 14

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?

### Response

We understand that succinctly defining materiality is complex. However, we believe the current definition is too wide and could lead to unintended consequences.

We are particularly concerned it may not provide an effective filter to prevent insignificant or unreliable information being reported. This is particularly true for quantitative metrics which are necessarily built from a set of long-term forward-looking assumptions. Materiality scoped broadly includes anything that could be expected to influence decisions now or at any point in the future, when combined with quantitative metrics modelled on long-term forward looking assumptions, could lead to all manner of potential future risks being reported 'just in case' irrespective of whether they are significant as at the reporting date.

The proposed materiality definition differs significantly from our understanding of financial reporting materiality in two key respects. The first is the timeframe which centres financial reporting materiality to information that is decision useful as at the reporting date. The second is the linked financial reporting concept of reliability. It is unclear from the consultation document how reliable a materiality assessment of enterprise value across all time horizons is likely or expected to be.

Finally, it is unclear whether annual report users will appreciate the significant distinction between how materiality is assessed for the presentation of financial information compared to the presentation of climate related disclosures.

We recommend that, as a minimum, the concept of materiality be amended in the following manner:

*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~~ as at the reporting date.*

We would additionally recommend the XRB consider providing extensive guidance to apply the concept of materiality in relation to information presented in the climate related disclosure statement.

## 15

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

### Response

We do not have any other comments in relation to materiality.