



2 May 2022

External Reporting Board  
PO Box 11250, Manners St Central,  
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Submitted online to: [climate@xrb.govt.nz](mailto:climate@xrb.govt.nz)

Attention: April Mackenzie

Dear April

### **Climate-related Disclosures Consultation Document: Strategy, and Metrics and Targets**

Thank you for the opportunity to comment on the External Reporting Board's (XRB's) Climate-related Disclosures Consultation Document: *Strategy, and Metrics and Targets*.

#### **Our general comments**

We support the proposed climate-related framework and many of the concepts, methodologies and disclosures that are proposed for *Strategy, and Metrics and Targets*. We also commend the XRB for working at great speed to issue its climate standards.

We support the alignment of concepts, methodologies and disclosures with those of the Task Force on Climate-related Financial Disclosures (TCFD) and the consideration of other relevant international frameworks and proposals. It is important to consider what is happening internationally when developing a credible New Zealand climate-related reporting framework. However, it is also important to take into account the New Zealand perspective and be prepared to add to or amend the international frameworks to appropriately address the purpose of the New Zealand regime and all of the entities that will be within scope.

#### **Our specific comments**

Our focus is on reporting by public entities and the assurance of greenhouse gas (GHG) emissions. Public entities within the regime include for-profit entities (such as Air New Zealand Ltd and Kiwibank Ltd) as well as a smaller number of public benefit entities (such as Auckland Council and some Crown Financial Institutions). We raise the following two specific issues for the XRB to consider.

#### ***Climate standards that work for all entities***

"Primary users" is proposed to be defined as "existing and potential investors, lenders and other creditors". We disagree with this narrow focus of primary users:

- It is inconsistent with the statutory purpose for the climate standards and climate-related disclosures which includes "to enable investors and **other stakeholders** to assess the merits of how entities are considering those risks and opportunities"<sup>1</sup>; [emphasis added] and
- It imposes an unnecessary limitation on the terminology and language used, and consequently, on the disclosure requirements which may not be suitable for some public entities.

We recommend that the XRB ensures that the proposed climate standards are future-proofed and work for all entities that need to comply with the climate standards.

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<sup>1</sup> See Section 19B(c) of the Financial Reporting Act 2013.

***Ensuring reliability of Scope 1 and Scope 2 GHG emissions information***

Assurance of GHG emissions information is important to give credibility to the information.

We consider that “reasonable assurance” should be expected for Scope 1 and Scope 2 emissions information. Scope 1 and Scope 2, by definition, are “direct” emissions and entities should be able to obtain reliable information.

We consider that “limited assurance” is the most that should be expected for Scope 3 emissions information until there is a better understanding of the feasibility and cost/benefit considerations for requiring reasonable assurance. Scope 3 emissions, by definition, are ‘indirect’ and entities may have less ability to obtain reliable information.

Our comments to the individual Questions are attached to this letter.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at [laywee.ng@oag.parliament.nz](mailto:laywee.ng@oag.parliament.nz).

Yours sincerely



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## Appendix 1: Responses to the Questions

- 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?

We agree the proposed Strategy section of proposed NZ CS 1 would meet the primary user needs of for-profit entities.

However, we do not agree it meets the user needs of public entities. The proposed strategy section is unclear about the information to be disclosed by public entities. Public entities should provide users with balanced and relevant information about the impact of climate on their broader performance or sustainability.

### Narrow definition of “primary users”

The XRB is proposing an updated definition for “primary user” as “existing and potential investors, lenders and other creditors”.

We disagree with the revised definition of “primary users”. In relation to public entities, the narrow definition of “primary users” is inconsistent with the statutory purpose for the climate standards and climate-related disclosures set out in section 19B(c) of the Financial Reporting Act 2013 (the Act)<sup>2</sup>.

The purpose of climate standards in section 19B of the Act is to provide for, or promote, climate-related disclosures, including in order to “*enable investors and other stakeholders to assess the merits of how entities are considering those risks and opportunities*”. [section 19B(c), emphasis added]

The inclusion of “other stakeholders” in the statutory purpose of the Act would require the climate standards to be targeted at a wider audience than the proposed primary users. In the for-profit sector, other stakeholders may include customers and employees. In the public sector, other stakeholders include an even wider range of users, for example, rate payers, resource providers and service recipients, whose information needs may differ from those of the proposed primary users and include information about the public entity’s service delivery, performance and outcomes.

The narrow focus of primary users has flow-on impact on other terminology, the language used, the disclosure objective and the disclosures that are proposed. Consequently, the proposed strategy-related disclosures would not meet the needs of users of a public entity’s climate-related information.

### Undue focus on financial impacts

The narrow focus of the definition of primary users imposes an unnecessary limitation on the terminology and language used in proposed NZ CS 1, and consequently, on the disclosure requirements. The strategy-related disclosures are largely focused on financial matters and financial impacts. In relation to public

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<sup>2</sup> Section 19B of the Financial Reporting Act 2013 states:

**“Purpose of climate standards and climate-related disclosures**

The purpose of climate standards is to provide for, or promote, climate-related disclosures, in order to —

- (a) encourage entities to routinely consider the short-, medium-, and long-term risks and opportunities that climate change presents for the activities of the entity or the entity’s group; and
- (b) enable entities to show how they are considering those risks and opportunities; and
- (c) enable investors and other stakeholders to assess the merits of how entities are considering those risks and opportunities.”

entities, this is inconsistent with the statutory purpose for the climate standards and climate-related disclosures as set out in section 19B(a) of the Act. Under section 19B(a), the purpose of climate standards is to provide for, or promote, climate-related disclosures, that “*encourages entities to routinely consider the short-, medium-, and long-term risks and opportunities that climate change presents for the activities of the entity or the entity’s group*”. [emphasis added]

In relation to public entities, this would require consideration of climate-related impacts on “activities” that include service delivery, performance and outcomes, which may be non-financial in nature.

The primary objective of most public entities is to deliver services to the public, rather than to make profits and generate a return on equity for investors. Climate impacts on a public entity’s cash flows may not be the same as the impacts on its ability to deliver services. The focus on financial impacts and cash flows provides useful contextual information about the funding requirements of a public entity (rates, taxes/levies, grants). However, that information alone is insufficient.

Focusing on financial impacts, profitability, financial planning and cash flows in isolation, may result in a public entity disclosing incomplete or biased climate information and impacts about its broader performance. It will not tell us about how well a public entity is equipped to deal with the climate challenges ahead and to continue delivering services and supporting communities (and the sustainability of its service performance). Financial impacts, in combination with the impact of climate-related risks and opportunities on service performance would provide valuable information to the users of public entity reports.

International climate frameworks (including TCFD) are written mainly for for-profit entities. We do not consider that the narrow focus on financial impacts and cash flows (and the terminology and language) used in international frameworks is always relevant for public entities. Public entities have wider objectives and need to disclose relevant climate-related information to a wider range of users.

We acknowledge that the XRB is setting the climate standards mainly for capital market entities. While the number of public entities that are currently climate reporting entities is small, the climate standards still need to work for them. In addition, the climate standards need to be future-proofed. This includes being an appropriate basis for other entities that may in the future be mandated to provide climate statements.

An increasing number of public entities are choosing to specify measures of GHG emissions in the performance measures set in their statutory ex-ante performance framework documents (e.g. Statements of Intent and Council’s long-term plans) and these measures are then reported against in annual reports and subject to audit by the Auditor-General. Many public entities are also starting to report emissions and have them “verified” under the Carbon Neutral Government Programme. Climate reporting and assurance standards that are relevant to public entities could make them relevant and applicable to these other public sector reporting regimes and we encourage the XRB to consider the potential for wider applicability of its climate standards in the future.

Also see our comment under Question 5 and Question 11.

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

Subject to our comment under Question 1 and Question 5, we agree that a standalone disclosure describing the entity’s business model (or operating model) and strategy is necessary to give context to the climate information that is disclosed.

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 entities should disclose, at a minimum, a 1.5°C scenario.

We also agree that NZ CS 1 should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios, but rather leave this more open by requiring a 'greater than 2°C scenario'. This affords entities more flexibility to choose the scenario that they consider appropriate for their own circumstances and risks.

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. To be useful, transition plans should be tied to, and reflect the actions the entity proposes to take to address each climate scenario that it has selected.

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

We consider the defined terms are relevant to for-profit entities. However, they do not give sufficient consideration to how the terms can be applied by public entities to reflect their broader performance and objectives to a wider group of users.

We consider the definitions are important to ensure climate reporting entities have a consistent understanding of the disclosure requirements. They also need to be appropriate for, and be capable of being applied by, the different types of entities applying the standards.

As stated in Question 1, we disagree with the definition of "primary users". Its narrow focus imposes an unnecessary limitation on the terminology and language used throughout the proposed standard, and consequently, on the disclosure requirements which may not be suitable for public entities. We recommend that the XRB reconsiders the definition of "primary user" to ensure that it captures the wider range of a public entity's users.

The definitions need to consider service delivery/performance/outcomes implications and impacts that are applicable to public entities. For example, terminology like "business model" should be "business or operating model" and the concept of service delivery/performance/outcomes (and their related measures) needs to be separately defined or be included in the various definitions. We suggest that the definition of the term "impacts" makes it clear that, in relation to a public entity, it includes impacts on the entity's service delivery/performance/outcomes.

We recommend the XRB considers each of the defined terms and considers how a public entity would apply those terms, in particular, in relation to the proposed disclosure objective and the proposed disclosures set out in Table 3 of the Consultation Document. This may require either a change to terminology and/or an explanation of how a public entity applies the proposed disclosure objective and disclosures. For example, we suggest that the XRB considers whether the word "financial" is always necessary in relation to "impacts".

Also see our comment under Question 11.

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 proposed adoption provisions for some of the specific disclosures in NZ CS 1.

Please also see the comment under Question 13 that, as an alternative to prescribing limited assurance for all scopes of GHG, the XRB could consider whether entities should be given a phase-in period for the Scope 3 requirements if they need an additional year to comply with those requirements.

- 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?

Subject to our comments in Question 1 and Question 5, we agree the proposed Metrics and Targets section of NZ CS 1 meets user needs.

**Paragraph 7 (b) of Table 6** proposes the disclosure of whether the target is “science-based”. We recommend guidance be provided on how this is to be determined. It will also be useful to require the disclosure of how the target was derived and its source.

**Paragraph 8 (d)** requires the disclosure of the consolidation approach for emissions (whether equity share, financial control or operational control).

The XRB is not proposing to require a particular consolidation approach for determining the reporting boundaries for GHG emissions. Instead, entities will have a choice of the different consolidation approaches that are specified in the GHG Protocol. The XRB proposes to develop further guidance for the Metrics and Targets section, including on the topic of *Standards to calculate emissions*.

We note that the U.S. Securities and Exchange Commission’s (SEC’s) proposes to align the reporting boundaries and consolidation approaches in the GHG Protocol with the corresponding boundaries and consolidation approaches set out in financial reporting standards.<sup>3</sup> The SEC’s proposals give certainty about the boundaries and consolidation approaches to preparers and auditors and the concept is applicable to both for-profit entities and public benefit entities.

We also note that, to facilitate comparability given the different approaches allowed in the GHG Protocol, the International Sustainability Standards Board’s (ISSB’s) Exposure Draft IFRS S2 *Climate-related Disclosures*<sup>4</sup> proposes that entities be required to separately disclose Scope 1 and Scope 2 emissions for:

- the consolidated entity; and
- for any associates, joint ventures, unconsolidated subsidiaries and affiliates.

Having clear, consistent and appropriate reporting boundaries and methodologies for reporting the different scopes of GHG is important to ensure that the resulting information is consistent, comparable and useful. We

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<sup>3</sup> The Securities and Exchange Commission’s proposals *The Enhancement and Standardization of Climate-Related Disclosures for Investors*, <https://www.sec.gov/rules/proposed/2022/33-11042.pdf>, in particular the proposals and associated reasons set out in the section on GHG Emissions Methodology and Related Instructions.

<sup>4</sup> International Sustainability Standards Board’s Exposure Draft IFRS S2 *Climate-related Disclosure*, <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>

encourage the XRB to consider these international developments when developing NZ CS 1 and/or its further guidance.

**Paragraphs 11 and 12** propose disclosures about the methodologies and assumptions used to calculate climate-related metrics and targets. We recommend that an entity be required to also disclose changes to methodologies and assumptions and the reasons for the change.

We also recommend the XRB considers the inclusion of the following disclosures:

- The explicit disclosure of an entity's GHG emissions removals, for example, carbon sequestered from an entity's own trees;
- In relation to an entity's transition plans, the disclosure of the entity's use of carbon offsets;
- An explanation of the activities included within its disclosed Scope 3 emission information and how the emissions information provided by parties in the entity's supply chain has been included, or excluded, in the determination and disclosure of that information;
- An explanation of the basis for the measurement of its Scope 3 emissions where such measurements include information provided by entities in its value chain; and
- The reasons for omitting any Scope 1, Scope 2 and Scope 3 greenhouse gas emissions, for example, because it is unable to obtain a faithful measure.

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?

It will be useful for the XRB to provide some examples of industry-specific metrics that might be relevant for New Zealand entities, whether these be sourced from TCFD or TRWG prototype.

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 support the disclosure of scope 3 value chain emissions as part of this standard. However, we are concerned about the information from an assurance perspective (see our comment under Question 13).

Much of the emissions information relies on external suppliers. It is unclear whether suppliers currently have the systems in place to provide this information. We are aware of work being carried out on the procurement side to encourage suppliers to have information available, for example, travel agents providing summaries of the emissions embodied in travel. However, this work is still at an early stage. Other impediments to measuring Scope 3 include, for example:

- In relation to staff travel, does an entity know how many taxi trips were in electric vehicles, hybrid vehicles or petrol vehicles, or how their staff travel to work (bus, car, train, walk, distance and fuel source)?
- In relation to the downstream emissions, is a Council able to estimate the amount of emissions caused by the public using its roads or by a Council issuing licences for various activities that may give rise to GHG emissions?
- When an entity holds seminars or conferences, does it know how many emissions were caused in transporting attendees to the event?

- Is there sufficient breakdown of emission factors to fairly reflect emissions, for instance, the different emission factor for New Zealand-produced steel compared to Chinese-produced steel (including transportation impacts)?

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?

Paragraph 9 of Table 6 *Proposed Metrics and Targets section of NZ CS 1* requires a link or cross-reference to a “GHG emissions report”. Page 39 of the Consultation Document states that the GHG emissions report is an “integral part of the disclosures, will be required to be publicly available, and will be subject to assurance”. However, it is not clear what this means. It is not clear to us whether the GHG emissions report is part of the disclosure requirements of the proposed standard and/or whether it would be required to be filed with the Registrar as part of an entity’s climate statements. Moreover, notwithstanding the XRB’s statement that the GHG emissions report is required to be assured, we note that it is not included within the intended scope of the assurance engagement set out in Table 8 (page 44).

We question a mandatory requirement to produce a GHG emissions report if this is not part of an entity’s climate statement. The standard sets disclosure requirements for an entity’s “climate statement”. A GHG emissions report may be one helpful tool to collect emissions information to support the disclosures in the climate statement but of itself does not seem to be the required disclosure.

Similarly, we question whether paragraph 8(b) is appropriate. This suggests that accurate GHG emissions can only be determined by producing a formal report called a GHG emissions report. This may not be the case.

The legislation requires an assurance engagement over climate statements to the extent those statements are required to disclose GHG emissions. The consultation document is unclear about the scope of the engagement as it is unclear whether the GHG emissions report (and its detailed contents) is part of the climate statement. Assuring the summary GHG emissions disclosures in the climate statement (as set out in paragraph 4a of Table 6) is not the same as assuring the “GHG emissions report”.

We recommend that the XRB clarifies the status of the GHG emissions report and the scope of the assurance engagement.

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

We note the Comparison Table for the XRB’s proposals for Strategy, and Metrics and Targets states that the Scope 3 definition is aligned with TCFD and that the second paragraph of the definition is drawn from the GHG Protocol and aligned with TRWG.

The proposed definition of Scope 3 includes a list of categories. It is unclear whether the categories are examples or a conclusive list. For example, downstream emissions are limited to “transportation and distributions, processing of sold products, end-of-life treatment of sold products, downstream leased assets, franchises and investments”. Does this mean that Scope 3 is limited to getting the product to a purchaser and its end disposal and excludes a purchaser’s use of the product? We note that, for example, the list of categories in the definition of Scope 3 does not include “use of sold products” which is included in Figure 6 and in the GHG Protocol. We recommend that the XRB clarifies whether the categories in the Scope 3 definition are examples or a conclusive and complete list.

The Scope 3 list of categories from a public sector perspective is also not clear. The list includes “processing of **sold products**” and “end-of-life treatment of **sold products**” [emphasis added]. These categories do not align with activities carried out by public entities or entities that are service-oriented entities, such as those



entities providing roading, water or education. These do not fit into the “use of sold **products**”. Moreover, in the public sector, not all products (or services) are **sold**: public entities predominately provide goods and services for free. We recommend that:

- The words “sold products” be replaced with “the entity’s products and services”; and
- The XRB reviews and ensures that the Scope 3 list of categories also works (and is a complete list) for public sector non-commercial entities.

We suggest, under the definition of “base year”, the word “historic” be changed to “historical”.

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 not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1.

However, see our comment under Question 13 that, as an alternative to prescribing limited assurance for all Scopes of GHG, that entities could be given a phase-in period for the Scope 3 requirements if they need an additional year to comply with those requirements.

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

We disagree with the XRB proposal that the minimum level of assurance for GHG emissions be set at “limited assurance” for all three GHG emissions scopes. Allowing all GHG emissions scopes to have limited assurance unnecessarily lowers the reliability of the Scope 1 and Scope 2 information.

We consider that “reasonable assurance” should be expected for Scope 1 and Scope 2 emissions information. Scope 1 and Scope 2, by definition, are “direct” emissions and entities should be able to obtain reliable information. Applying reasonable assurance to Scope 1 and Scope 2 gives greater assurance of the reliability of the information.

We consider that “limited assurance” is the most that should be expected for Scope 3 information until there is a better understanding of the feasibility and cost/benefit considerations for requiring reasonable assurance. Scope 3 emissions, by definition, are ‘indirect’ and entities may have less ability to obtain reliable information.

Given that entities may not be able to control or readily collect Scope 3 information, an alternative that could be considered is to allow entities a longer transition period to comply with the Scope 3 disclosures and with any corresponding assurance requirements.

Also see our comments under Question 7 that relate to requiring additional information about an entity’s Scope 3 emissions information.

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?

We consider the definition of the term “enterprise value” (and its use throughout the proposed materiality section of NZ CS 1) needs to be further clarified in the context of public entities whose operations and performance may not be solely based on an estimation of the amount, timing and certainty of their future cash flows spanning the short, medium and long term.

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

We have no other comments on the proposed materiality section.