



Michele Embling, Chair
External Reporting Board (XRB)
Level 7, 50 Manners Street
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New Zealand

2 May 2022

**Subject: PwC submission on the Aotearoa New Zealand Climate Standard 1
Climate-related Disclosures Strategy, and Metrics and Targets Consultation
Document (NZ CS 1 or the Standard)**

Dear Michele

About us

This submission is from PricewaterhouseCoopers New Zealand (PwC NZ). We are the New Zealand member of PwC's global network of firms. PwC NZ is the largest professional services firm in New Zealand, employing over 1,650 people.

This response is filed on behalf of PwC NZ. References to "PwC" and/or "we" refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

Background

We appreciate the opportunity to comment on NZ CS 1. We are supportive of the upcoming legislation and the Standard. We commend the XRB on their development of this pioneering standard. We also understand that how businesses respond to climate issues will play a critical role in protecting our economy and our capital markets from the impact of climate change. We agree that to achieve its intended outcomes this Standard needs to facilitate change rather than simply being a compliance exercise. These disclosures need to fully inform users of climate-related risks and opportunities so that users have appropriate information when making decisions on capital financing, lending or underwriting. We have reviewed the consultation document with this purpose in mind.

We acknowledge the efforts of the XRB on their work in this second consultation document. The document is well laid out, articulate and material considerations have been taken into account.

In developing the views expressed in this submission, we have drawn on PwC's experience in understanding and applying accounting standards, reporting and assurance frameworks and requirements, and our experience of reporting entities who will be affected by this submission, their users and the assurance profession.



Set out below are our high level observations on NZ CS 1.

- **Definitions:** We support utilising the same definitions as the Task Force on Climate-related Financial Disclosures (TCFD) or the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), where applicable, to minimise the risk of misinterpretation and encourage alignment of New Zealand reporters to those internationally. The definitions from NZ IFRS, at times, provide a more comprehensive definition based on control, influence or the ability an agent has to direct activities that affect climate related issues/entity outcomes and reporting.

We have identified some terms we believe should be clearly defined to remove ambiguity and ensure consistent application of the Standard. We have included these in our answer to Question 11 below.

- **Principles based approach:** We support having a principles based approach for NZ CS 1 as this allows Climate Reporting Entities (CREs/CRE) to provide information that is relevant to their sector/entity. A principles based approach allows preparers to more readily apply judgement and materiality.
- **Sector guidance:** We support the XRB in ultimately issuing sector specific guidance. This will be an important step in the consultation process to ensure consistent and comparable application of NZ CS 1. We also support the XRB in leveraging existing guidance already developed and provided by the TCFD (and like organisations/standards) to ensure international consistency and comparability.
- **Overall consultation process:** As stated previously, we have kept our responses to the questions raised in NZ CS 1 succinct as this consultation document is only the second stage of the feedback process. We look forward to providing further feedback on the Climate Standards in the future.

PwC responses to XRB 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?

Yes, we believe the proposed Strategy section of NZ CS 1 meets primary user needs.

- a. Yes, this information will be useful for decision making of primary users.
- b. Yes, this section is clear and unambiguous. To further enhance clarity:
 - NZ CS 1: 7. (b) (ii) We agree that moving this proposed disclosure to the Governance section makes sense for consistency throughout the standard.
 - NZ CS 1: Page 26, 6.5., Final paragraph: It is stated that a CRE should report their progress towards understanding and managing climate-related risk and opportunities. This should be a mandatory disclosure in the final NZ CS 1.
- c. We believe that this section of the Standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures.



We agree that additional guidance, such as sector guidance, should be included in the accompanying guidance to the Standard. We will review this guidance once it is released and provide comments then.

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

We agree that a brief standalone disclosure on describing the entity's business model and strategy assists in the understanding of the overall climate change disclosures.

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 that there could be benefits to using prescribed scenarios. However, at this stage there is significant uncertainty about the future of climate change and the potential impacts of climate change on business, so it therefore makes sense to not prescribe scenarios.

Additionally, relevant scenarios can also vary by sector/industry and the individual CRE based on the nature of their business and operations. Therefore, we think it is reasonable and appropriate for management to determine which scenarios they consider plausible and applicable to their sector/business.

It is important that whatever scenarios are used are clearly identified and that the underlying assumptions are clearly disclosed and explained by the CRE.

The XRB could consider providing guidance as to what scenario resources are available for CREs to use.



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 agree as it is up to CREs to determine and decide their transition plan and/or particular target based on the nature of their business and their emissions, their ability to impact, reduce and/or purchase carbon credits to reduce their emissions and the emissions data available to them to track their emissions effectively.

The XRB could recommend carbon emissions target options, such as the Science Based Targets Initiative, to provide guidance for CREs. This way the CRE can understand what the target options are and the XRB could provide recommendations on which targets are best to utilise.

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

We have no other views or comments on the defined terms as they are currently proposed.

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 support the use of the first-time adoption provisions. The CREs will have a more informed view of the ability of preparers to meet the requirements of the Climate Statements and whether additional provisions are necessary.

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?

Yes, we believe the proposed Metrics and Targets section of NZ CS 1 meets primary user needs.

- a. Yes, this information will be useful for decision making of primary users. However we have identified an instance where the information will be more useful to decision making if the alternative below is updated.

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?

- NZ CS 1: 4 (c) The ability to choose which method is applied reduces consistency and comparability between CREs. It would be more valuable to require the assessment under all three methods. If the measure is not applicable the CREs could disclose this. By doing this, it reduces some of the need for sector specific guidance.
- b. Yes, this section clearly sets out what information is required to be disclosed.
- c. We believe that this section of the Standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures. However, we have identified an area where further guidance is required.
- NZ CS 1: Page 38, 7.6.3., Paragraph 1: The ability to choose entity or industry specific metrics decreases the ability to have consistency and comparability between CREs. The XRB should provide guidance, especially sector guidance, on how metrics should be applied in practice.

We also agree that overall, additional guidance, such as sector guidance, should be included in the accompanying guidance to the Standard.

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 to allow CREs to report the metrics they actually use. Additionally, we believe that sectors should work together to decide what metrics make the most sense for the sector. Due to this, the XRB may wish to consider specific industry metrics in the 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?

It is more appropriate for CREs, as preparers, to provide comments on this question.



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 the following considerations for the XRB.

- 8(c): We recommend choosing one standard, protocol and methodology that the CRE's GHG emissions report is prepared in accordance with.
- 8(d): We recommend choosing one consolidation approach for emissions.
- 8(c) and 8(d): By determining the methods/approach, it will ensure consistency in GHG emissions reporting and assurance.
- 10: We recommend indicating where restatement is allowed and/or necessary.

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

The following terms are either confusing or are not defined:

- *Entities that are considered to have a higher level of public accountability* (Page 11, Section 3.3, Paragraph 2). The definitions in XRB A1 and in NZ CS 1 do not appear to be aligned. This may cause confusion. We recommend that if these are intended to be two separate categories that the XRB makes it clear which category is required to apply Tier 1 NZ IFRS and which entities are required to report under NZ CS 1.
- Capital Deployment (Page 20, Disclosure 4. (a))

We have no other views or comments on the defined terms as they are currently proposed.

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 is more appropriate for CREs, as preparers, to provide comments on this question.

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

We agree that initially this is the most pragmatic and reasonable approach.



We also agree that as disclosures and standards (as well as global standards) progress, this position should be reviewed again in the future and potentially moved to reasonable assurance if it makes sense to do so. We agree that the CRE can still choose to obtain reasonable assurance if they feel this makes the most sense for their business and the users.

Regardless of the level of assurance obtained, we also acknowledge that CREs will be required to develop processes and obtain/track data to be able to appropriately report on their metrics and targets, particularly scope 3 emissions. We acknowledge that this will be a challenging and complex exercise to undertake. We expect CREs will require a long period of time and intensive resources to do this. We suggest the XRB acknowledges this.

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 agree.

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

No other comments to be provided.

Yours sincerely

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