Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Aotearoa New Zealand Climate Standard 1

Climate-related Disclosures (NZ CS 1)

Exposure Draft

Submissions close 26 September 2022

July 2022

EXPOSURE DRAFT

Aotearoa New Zealand Climate Standard 1

Climate-related Disclosures (NZ CS 1)

Issued [date]

This [draft] Standard was issued on [date] by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

This [draft] Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective dates in paragraphs B1 to B2 of Appendix B.

In finalising this [draft] Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of the New Zealand Government enacting legislation to require certain entities to prepare climate-related disclosures.

http://www.xrb.govt.nz

ISBN

Contents

Objective ... 6
Scope ... 6
Governance ... 6
Disclosure objective ... 6
Disclosures ... 6
Governance body oversight ... 6
Management's role ... 7
Strategy ... 7
Disclosure objective ... 7
Disclosures ... 7
Current impacts and financial impacts ... 7
Scenario analysis undertaken ... 8
Climate-related risks and opportunities ... 8
Anticipated impacts and financial impacts ... 8
Transition plan aspects of its strategy ... 8
Risk Management ... 9
Disclosure objective ... 9
Disclosures ... 9
Metrics and Targets ... 9
Disclosure objective ... 9
Disclosures ... 9
Cross-industry metric categories ... 10
Targets ... 10
GHG emissions ... 10
Assurance of GHG emissions ... 11

Appendix A Defined terms ... 12
Appendix B Effective date ... 15
Effective date ... 15

Basis for Conclusions on [draft] NZ CS 1 *Climate-related Disclosures* ... 17

[Draft] NZ CS 1 *Climate-related Disclosures* is set out in paragraphs 1–25 and Appendices A and B. All the paragraphs, including Appendices A and B, have equal authority. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. This [draft] Standard should be read in the context of its objective, the Basis for Conclusions, [draft] NZ CS 3 *General Requirements for Climate-related Disclosures* and [draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards.*

Objective

1. In providing a consistent framework for entities to consider the *climate-related risks* and *climate-related opportunities* that climate change presents for their activities over the short, medium and long term, the objective of this [draft] Standard is to enable *primary users* to assess the merits of how entities are considering those risks and opportunities, and then make decisions based on these assessments. The ultimate aim is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

Scope

2. This [draft] Standard applies to entities which are required by the Financial Markets Conduct Act 2013 to prepare climate statements or group climate statements that comply with the climate-related disclosure framework.

3. Any entity that elects to or is otherwise directed to prepare climate statements or group climate statements is encouraged to apply all the requirements of Aotearoa New Zealand Climate Standards.[1]

4. This [draft] Standard does not apply to an interim period.

Governance

Disclosure objective

5. To enable primary users to understand both the role an entity's *governance body* plays in overseeing climate-related risks and climate-related opportunities, and the role *management* plays in assessing and managing those climate-related risks and opportunities.

Disclosures

6. To achieve the disclosure objective in paragraph 5, an entity must disclose the following information:

   (a) the identity of the governance body responsible for oversight of climate-related risks and opportunities;

   (b) a description of the governance body's oversight of climate-related risks and opportunities (see paragraph 7); and

   (c) a description of management's role in assessing and managing climate-related risks and opportunities (see paragraph 8).

Governance body oversight

7. An entity must include the following information when describing the governance body's oversight of climate-related risks and opportunities (see paragraph 6(b)):

   (a) the processes and frequency by which the governance body is informed about climate-related risks and opportunities;

   (b) how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities;

   (c) how the governance body considers climate-related risks and opportunities when developing and overseeing implementation of the entity's strategy; and

[1] For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

(d) how the governance body sets, monitors progress against, and oversees achievement of metrics and targets for managing climate-related risks and opportunities, including whether and if so how, related performance metrics are incorporated into remuneration policies (see also paragraph 21(h)).

Management's role

8. An entity must include the following information when describing management's role in assessing and managing climate-related risks and opportunities (see paragraph 6(c)):

(a) how climate-related responsibilities are delegated to management-level positions or committees, and the process and frequency by which management-level positions or committees engage with the governance body;

(b) the related organisational structure(s) showing where these management-level positions and committees lie; and

(c) the processes and frequency by which management is informed about, makes decisions on, and monitors, climate-related risks and opportunities.

Strategy

Disclosure objective

9. To enable primary users to understand how climate change is currently impacting an entity and how it may do so in the future. This includes the *scenario analysis* an entity has undertaken, the climate-related risks and opportunities an entity has identified, the anticipated *impacts* and *financial impacts* of these, and how an entity will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future.

Disclosures

10. To achieve the disclosure objective in paragraph 9, an entity must disclose:

(a) a description of its current climate-related impacts (see paragraph 11);

(b) a description of the scenario analysis it has undertaken (see paragraph 12);

(c) a description of the climate-related risks and opportunities it has identified over the short, medium, and long term (see paragraph 13);

(d) a description of the anticipated impacts of climate-related risks and opportunities (see paragraph 14); and

(e) a description of how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state (see paragraph 15).

Current impacts and financial impacts

11. An entity must include the following information when describing its current climate-related impacts (see paragraph 10(a)):

(a) its current physical and transition impacts;

(b) the current financial impacts of its physical and transition impacts identified in paragraph 11(a); and

(c) if the entity is unable to disclose quantitative information for paragraph 11(b), an explanation of why that is the case.

Scenario analysis undertaken

12. An entity must describe the scenario analysis it has undertaken to help identify its climate-related risks and opportunities and better understand the resilience of its business model and strategy. This must include a description of how an entity has analysed, at a minimum, a 1.5 degrees Celsius *climate-related scenario,* a 3 degrees Celsius or greater climate-related scenario, and a third climate-related scenario (see paragraph 10(b)).

Climate-related risks and opportunities

13. An entity must include the following information when describing the climate-related risks and opportunities it has identified (see paragraph 10(c)):
    (a) how it defines short, medium and long term and how the definitions are linked to its strategic planning horizons and capital deployment plans;
    (b) a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact;
    (c) whether the risks and opportunities identified are physical or transition risks or opportunities and, where relevant, their sector and/or geography; and
    (d) how climate-related risks and opportunities serve as an input to its financial planning processes, including for capital deployment and funding.

Anticipated impacts and financial impacts

14. An entity must include the following information when describing the anticipated impacts of the climate-related risks and opportunities it has identified (see paragraph 10(d)):
    (a) the anticipated impacts of climate-related risks and opportunities reasonably expected by the entity;
    (b) the anticipated financial impacts of climate-related risks and opportunities reasonably expected by an entity; and
    (c) if an entity is unable to disclose quantitative information for paragraph 14(b), an explanation of why that is the case.

Transition plan aspects of its strategy

15. An entity must include the following information when describing how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state (see paragraph 10(e)):
    (a) a description of its current business model and strategy;
    (b) the *transition plan* aspects of its strategy, including how its business model and strategy might change to address its climate-related risks and opportunities; and
    (c) the extent to which transition plan aspects of its strategy are aligned with its financial planning processes, including for capital deployment and funding.

Risk Management

Disclosure objective

16. To enable primary users to understand how an entity's climate-related risks are identified, assessed, and managed and how those processes are integrated in existing *risk management* processes.

Disclosures

17. To achieve the disclosure objective in paragraph 16, an entity must disclose the following information for both *transition risks* and *physical risks*:

 (a) a description of its processes for identifying, assessing and managing climate-related risks (see paragraph 18); and

 (b) a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management processes.

18. An entity must include the following information when describing its processes for identifying, assessing and managing climate-related risks (see paragraph 17(a)):

 (a) the tools and methods used to identify, and to assess the scope, size, and impact of, its identified climate-related risks;

 (b) the short-term, medium-term, and long-term time horizons considered, including specifying the duration of each of these time horizons;

 (c) whether any parts of the *value chain* are excluded;

 (d) the frequency of assessment; and

 (e) how it prioritises climate-related risks relative to other types of risks.

Metrics and Targets

Disclosure objective

19. To enable primary users to understand how an entity measures and manages its climate-related risks and opportunities. *Metrics* and *targets* also provide a basis upon which primary users can compare entities within a sector or industry.

Disclosures

20. To achieve the disclosure objective in paragraph 19, an entity must disclose:

 (a) the cross-industry metrics, which are relevant to entities regardless of industry and business model (see paragraph 21);

 (b) industry-based metrics relevant to its industry or business model used to measure and manage climate-related risks and opportunities;

 (c) any other key performance indicators used to measure and manage climate-related risks and opportunities; and

 (d) the targets used to manage climate-related risks and opportunities, and performance against those targets (see paragraph 22).

Cross-industry metric categories

21. An entity must disclose cross-industry metrics for each of the categories below (see paragraph 20(a)):

(a) *greenhouse gas (GHG)* emissions: *gross emissions* in metric tonnes of *carbon dioxide equivalent (CO_2e)* classified as (see paragraph 23):

(i) *scope 1;*

(ii) *scope 2;*

(iii) *scope 3;*

(b) GHG *emissions intensity*;

(c) transition risks: amount or percentage of assets or business activities vulnerable to transition risks;

(d) physical risks: amount or percentage of assets or business activities vulnerable to physical risks;

(e) climate-related opportunities: amount or percentage of assets, or business activities aligned with climate-related opportunities;

(f) capital deployment: amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities;

(g) *internal emissions price*: price per metric tonne of CO_2e used internally by an entity; and

(h) remuneration: management remuneration linked to climate-related risks and opportunities in the current period, expressed as a percentage, weighting, description or amount (see also paragraph 7(d)).

Targets

22. An entity must include the following information when describing the targets used to manage climate-related risks and opportunities, and performance against those targets (see paragraph 20(d)):

(a) the time frame over which the target applies;

(b) any associated *interim targets*;

(c) the *base year* from which progress is measured;

(d) a description of performance against the targets; and

(e) for each GHG emissions target:

(i) whether the target is an *absolute target* or *intensity target*;

(ii) whether the target is aligned with science, and if so, whether it has been validated by a third party; and

(iii) the extent to which the target relies on offsets, whether the offsets are verified or certified, and if so, under which scheme or schemes.

GHG emissions

23. An entity must disclose the following in relation to its GHG emissions (see paragraph 21(a)):

(a) a statement describing the recognised standard or standards that its GHG emissions have been measured in accordance with;

(b) the GHG emissions consolidation approach used: equity share, financial control, or operational control; and

(c) a summary of specific exclusions of sources, facilities and/or operations with a justification for their exclusion.

Assurance of GHG emissions

24. Legislation requires that the disclosure of an entity's GHG emissions as required by Aotearoa New Zealand Climate Standards are the subject of an assurance engagement. This [draft] Standard requires that this assurance engagement is a limited assurance engagement at a minimum.

25. For the avoidance of doubt, the following information required by Aotearoa New Zealand Climate Standards is subject to an assurance engagement:

    (a) GHG emissions: gross emissions in metric tonnes of CO_2e classified as (see paragraph 21(a)):

        (i) scope 1;

        (ii) scope 2;

        (iii) scope 3;

    (b) additional requirements for the disclosure of GHG emissions (see paragraph 23);

    (c) GHG emissions methodologies, assumptions and estimation uncertainty (see NZ CS 3 *General Requirements for Climate-related Disclosures* paragraphs 51 to 53).

Appendix A
Defined terms

This appendix is an integral part of [draft] NZ CS 1 *Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

absolute target	A target defined by a change in absolute GHG emissions over time. For example, reducing scope 1 GHG emissions by 50% by 2030 from a 2019 base year.
base year	An historical datum (a specific year or an average over multiple years) against which an entity's metric is tracked over time.
climate-related risks	The potential negative impacts of climate change on an entity. See also the definitions of physical risks and transition risks.
climate-related opportunities	The potentially positive climate-related outcomes for an entity. Efforts to mitigate and adapt to climate change can produce opportunities for entities, such as through resource efficiency and cost savings, the adoption and utilisation of low-emissions energy sources, the development of new products and services, and building resilience along the value chain.
climate-related scenario	A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Climate-related scenarios are not intended to be probabilistic or predictive, or to identify the 'most likely' outcome(s) of climate change. They are intended to provide an opportunity for entities to develop their internal capacity to better understand and prepare for the uncertain future impacts of climate change.
carbon dioxide equivalent (CO_2e)	The universal unit of measurement to indicate the global warming potential of each of the seven GHGs, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. It is used to evaluate releasing (or avoiding releasing) any GHGs against a common basis.
emissions intensity	Intensity ratios express GHG emissions impact per unit of physical activity or unit of economic output. A physical intensity ratio is suitable when aggregating or comparing across that have similar products. An economic intensity ratio is suitable when aggregating or comparing across businesses that produce different products. A declining intensity ratio reflects a positive performance improvement. Intensity ratios are also often called normalised environmental impact data. Examples of intensity ratios include product emission intensity (for example, tonnes of GHG emissions per electricity generated); service intensity (for example, GHG emissions per function or service); and sales intensity (for example, emissions per sales).
financial impacts	The translation of impacts into current or anticipated impacts on financial performance, financial position and cash flows.
governance body	A board, investment committee or equivalent body charged with governance.
greenhouse gas (GHG)	The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO_2); methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF_3), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6).

gross emissions	Emissions are the release of GHGs into the atmosphere. Gross emissions are total GHG emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based methodology. Removals should be reported separately.
impacts	The effects (also referred to as consequences or outcomes) of climate change occurring for an entity. These effects will, in turn, depend on the impacts of climate change on the broader socioeconomic and ecological systems an entity operates within (including an entity's value chain).
intensity target	A target defined by a change in the ratio of emissions to a metric over time. For example, reducing tonnes CO_2e per $ revenue by 48% by 2025 from a 2018 base year.
interim target(s)	A short-term milestone between an entity's medium-term or long-term target and the current period.
internal emissions price	A monetary value on GHG emissions that an entity uses internally to guide its decision-making process in relation to climate-related impacts, risks and opportunities.
management	Executive or senior management positions that are generally separate from the governance body.
metric(s)	A quantity indicative of the level of historical, current, and forward-looking climate-related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against targets over the duration of the period for which a target is set.
physical risks	Risks related to the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns, such as sea level rise.
primary users	Existing and potential investors, lenders and other creditors.
risk management	A set of processes that are carried out by an entity's governance body and management to support the achievement of an entity's objectives by addressing its risks and managing the combined potential impact of those risks.
scenario analysis	A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. Engaging in this process helps an entity to identify its climate-related risks and opportunities and develop a better understanding of the resilience of its business model and strategy.
scope 1	Direct GHG emissions from sources owned or controlled by the entity.
scope 2	Indirect GHG emissions from consumption of purchased electricity, heat, or steam.
scope 3	Other indirect GHG emissions not covered in scope 2 that occur in the value chain of the reporting entity, including upstream and downstream GHG emissions. Scope 3 categories are purchased goods and services, capital goods, fuel-related and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold products, downstream leased assets, franchises, and investments.

target(s)	A specific level, threshold, or quantity of a metric that an entity wishes to meet over a defined time horizon in order to achieve an entity's overall climate-related ambition and strategy.
transition plan	An aspect of an entity's overall strategy that describes an entity's targets and actions for its transition towards a low-emissions, climate-resilient future.
transition risks	Risks related to the transition to a low-emissions, climate-resilient global and domestic economy, such as policy, legal, technology, market and reputation changes associated with the mitigation and adaptation requirements relating to climate change.
value chain	The full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end of life. Relevant activities, resources and relationships include those in an entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which an entity operates.

Terms defined in Aotearoa New Zealand Climate Standards and used in this [draft] Standard with the same meaning

Aotearoa New Zealand Climate Standards	Standards issued by the External Reporting Board which comprise the climate-related disclosure framework.
climate statements	For the purposes of this [draft] Standard has the same meaning as 'climate statements' as defined in the Financial Reporting Act 2013.
climate-related disclosures	Disclosures about climate-related risks and opportunities that are useful to primary users when they assess, and make decisions about, an entity's enterprise value, including information about its governance, strategy and risk management, and related metrics and targets.
climate-related disclosure framework	For the purposes of this [draft] Standard, climate-related disclosure framework has the same meaning as 'climate-related disclosure framework' as defined in the Financial Reporting Act 2013.
group climate statements	For the purposes of this [draft] Standard has the same meaning as 'group climate statements' as defined in the Financial Reporting Act 2013.
interim period	A reporting period shorter than a full year.

Appendix B
Effective date

This appendix is an integral part of NZ CS 1 *Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

Effective date

B1. Other than paragraph 24 to 25, an entity must apply this [draft] Standard for annual reporting periods beginning on or after [1 January 2023].

B2. Assurance of GHG emissions (see paragraphs 24 to 25) is effective for reporting periods that end on or after 27 October 2024.

Contents: Basis for Conclusions on [draft] NZ CS 1 *Climate-related Disclosures*

Introduction **17**
Reasons for issuing this [draft] Standard 17
Approach 17
Consultation 19
Post-implementation review 19
Governance **19**
Approach 19
GRM consultation 20
Strategy **21**
Approach 21
International developments 21
SMT consultation 21
Risk Management **23**
Approach 23
GRM consultation 23
Metrics and Targets **23**
Approach 23
SMT consultation 25
Assurance **26**
Level of assurance 26
Scope of assurance engagement 26

Basis for Conclusions on [draft] NZ CS1 *Climate-related Disclosures*

This Basis for Conclusions accompanies, but is not part of, [draft] NZ CS 1 *Climate-related Disclosures.*

Introduction

BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing [draft] NZ CS 1 *Climate-related Disclosures* as part of the climate-related disclosure framework for Aotearoa New Zealand.[2]

Reasons for issuing this [draft] Standard

BC2. In September 2020, the New Zealand Government announced its intention to implement mandatory reporting on climate-related risks and opportunities. Transparent and comparable disclosures relating to climate-related risks and opportunities are intended to contribute to the shift towards a low-emissions, climate-resilient future. They do so by enabling investors to make more informed capital allocation decisions about the climate-related risks and opportunities of existing and potential investments.

BC3. The New Zealand Government signalled that the reporting would be based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD recommendations are a leading framework for climate-related disclosures and were endorsed by the New Zealand Government in 2019.

BC4. In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (the Act) was passed and received Royal Assent. As a result, the XRB was given the mandate to issue climate standards as part of a climate-related disclosure framework.

Approach

BC5. When the XRB Board started its project to develop a climate-related disclosure framework for Aotearoa New Zealand, it also developed several design principles to guide its process. The XRB Board was aware of the relatively ambitious timeframe it had set for delivering the framework (i.e., intending to issue the framework by December 2022) and that having defined parameters and principles would assist. The design principles included that:

(a) the XRB would be guided by the qualitative characteristics of information that are useful for decision making: relevance, faithful representation (information being complete, neutral, and free from error), comparability, verifiability, timeliness and understandability;

(b) NZ CS 1 would be principles-based and succinct, with decisions about what is in NZ CS 1 and what is in accompanying guidance to be made on a case-by-case basis;

(c) the set of standards and associated guidance would be developed based on the recommendations of the TCFD, with any additions beyond what is contained within the TCFD suite of documents made as best practice evolves and with a view to future proofing the standard;

(d) the set of standards and associated guidance would be developed with a user needs focus (meaning that the disclosures must be useful to existing and potential investors, lenders and other creditors (primary users));[3] and

(e) understanding of te ao Māori in relation to climate-related disclosures is being developed at a framework level across the XRB to inform our work on wider sustainability reporting and this understanding would inform NZ CS 1 as it is able.

[2] Note that some of the content in this Basis for Conclusions applies to the climate-related disclosure framework as a whole.

[3] See the Basis for Conclusions for [draft] NZ CS 3 for more information on the primary user definition.

BC6. For the entirety of [draft] NZ CS 1, the XRB Board aims to achieve an appropriate mix of principles-based disclosures, including flexibility for entity-specific disclosures, and more prescriptive disclosures that provide comparability (for example, relating to scenario analysis or the disclosure of cross-industry metrics). This attempt to balance principles and rules-based disclosures has been carried out in alignment with our design principles.

BC7. The XRB Board initially proposed that the climate-related disclosure framework would comprise at least two standards (collectively referred to as Aotearoa New Zealand Climate Standards) and one authoritative notice. However, based on the desire to keep NZ CS 1 concise, and to enable both general requirements and principles to be included in Aotearoa New Zealand Climate Standards, the XRB Board proposed an updated framework in March 2022.

(a) Aotearoa New Zealand Climate Standards 1: *Climate-related Disclosures* (NZ CS 1).

(b) Aotearoa New Zealand Climate Standards 2: *First-time Adoption of Aotearoa New Zealand Climate Standards* (NZ CS 2).

(c) Aotearoa New Zealand Climate Standards 3: *General Requirements for Climate-related Disclosures* (NZ CS 3).

BC8. The XRB Board also reaffirmed in March 2022 its earlier decision made in 2021 that staff guidance would be issued to accompany Aotearoa New Zealand Climate Standards where needed, given the principles-based approach to the development of the standards.

BC9. The XRB Board established two groups to support the development of the climate-related disclosure framework: an XRB Project Steering Group[4] to provide standard-setting guidance, and an External Advisory Panel (EAP).[5] The intent of the EAP was to advise on technical matters particularly those relating to the practical application and implementation of the framework. XRB staff also held many discussions, workshops and sessions with preparers, experts and advisors on topics ranging from sector-level scenario construction to GHG emissions.

BC10. The XRB Board have had the added challenge of developing the climate-related disclosure framework in a rapidly evolving international environment. Since the XRB Board started its project, international developments include the:

(a) TCFD issuing new guidance and amendments to its original recommendations;

(b) International Sustainability Standards Board (ISSB) being established;

(c) United States Securities and Exchange Commission (US SEC) releasing their proposed framework for mandatory climate-related disclosures for public consultation; and

(d) European Commission launching a public consultation on their first set of draft European Sustainability Reporting Standards (ESRS).

BC11. The developments that have the most bearing on the initial approach adopted by the XRB Board in developing Aotearoa New Zealand Climate Standards are the establishment of the ISSB and the subsequent issue by the ISSB of two proposed standards: draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and draft IFRS S2 *Climate-related Disclosures*.

BC12. While the XRB Board has retained the TCFD as its base for developing [draft] Aotearoa New Zealand Climate Standards, it acknowledges the need for alignment with ISSB while still developing requirements that are appropriate for Aotearoa New Zealand. As a result, in some cases the XRB Board has decided to align more closely with the requirements in the ISSB draft standards, rather than with the original TCFD recommendations and guidance.[6]

---

[4] The Project Steering Group comprises Jacqueline Cheyne (Chair of the Project Steering Group and member of the XRB Board), Michele Embling (Chair of the XRB Board), Jane Taylor (Deputy Chair of the XRB Board) and April Mackenzie (Chief Executive of the XRB).

[5] The External Advisory Panel comprises Annabell Chartres (PwC), Alison Howard (Wellington City Council), Adrian McDonald (University of Canterbury), Darren Beatty (Te Rūnanga o Ngāi Tahu Group), Karl Hickey (ANZ Bank Ltd), Belinda Storey (Climate Sigma), Dale Scott (Onepointfive Ltd) and Jonathan Keate (Office of the Auditor-General).

[6] Noting that the ISSB's standards are also in in draft form and are not intended to be issued as final standards until the end of 2022.

Consultation

BC13. As part of the due process for developing standards, the XRB Board has a statutory obligation to consult with stakeholders before issuing a standard. It has consulted early and widely in recognition of being among the first in the world to create a mandatory climate-related disclosure regime.

BC14. In October 2021, the XRB Board consulted on the proposed Governance and Risk Management sections of [draft] NZ CS 1. The XRB Board received 67 formal responses to the Governance and Risk Management Consultation Document (GRM consultation). The XRB Board also considered informal responses from social media and events with the XRB participating in over 20 events during the consultation period. The XRB presented to more than 1600 people and received over 100 questions and comments from social media and events. A GRM consultation feedback document was published in February 2022.

BC15. In March 2022 the XRB Board consulted on the other two main sections of [draft] NZ CS 1: Strategy, and Metrics and Targets. It also consulted on the level of assurance for GHG emissions disclosures, and a proposed definition of, and a draft section on, materiality (which it proposed to include in NZ CS 3). The XRB Board received 66 formal responses to the Strategy, and Metrics and Targets Consultation Document (SMT consultation). The XRB ran a series of deep-dive webinars on the proposed Strategy, and Metrics and Targets proposals. As with the previous consultation the XRB also met with stakeholders to discuss the proposals and receive informal feedback.

Post-implementation review

BC16. A post-implementation review (PIR) is a tool used by standard setters to look back at how well a Standard is performing in practice after it has been in use for some time. PIRs allow standard setters to look at a number of things, including: Have the Standard's objectives been achieved? Are the requirements on the most difficult or contentious issues performing as intended? Have new issues emerged since the Standard was issued? Are the compliance costs consistent with expectations?

BC17. As discussed above, the XRB Board has consulted extensively in developing Aotearoa New Zealand Climate Standards. As a result of this consultation, the XRB Board is aware that the proposed disclosure requirements are substantial, but equally, that they are being demanded by primary users to inform their decision making. Importantly, the XRB Board's aim is for the disclosures made by entities to be high quality and meet the disclosure requirements from the outset, however, the XRB Board is mindful that the underlying practices within entities will become more sophisticated over time.

BC18. The XRB Board acknowledges nonetheless that consultation is not a substitute for real-life application experience. The XRB Board have therefore committed to begin a PIR of the climate-related disclosure framework no later than December 2025. During the period between issuing the framework and the PIR, the XRB Board can issue educational materials in order to help with understanding any disclosure requirements.

Governance

Approach

BC19. The proposed Governance disclosures are based on the TCFD recommendations. The TCFD recommendations are based on the premise that primary users of climate-related disclosures are interested in understanding the role an entity's board plays in overseeing climate-related risks and opportunities as well as management's role in assessing and managing those climate-related risks and opportunities. Such information supports evaluations of whether climate-related risks and opportunities receive appropriate attention from the governance body and management.

BC20. However, draft NZ CS 1 does include more detailed disclosure requirements in addition to the TCFD recommendations in relation to some aspects of the governance and management of climate-related risks and opportunities. An example is adding the proposed disclosure on how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities. The XRB Board has added these disclosures to meet the information needs of primary users.

GRM consultation

BC21. The XRB Board received feedback from the GRM consultation that while the use of the term ‘board’ aligned with the TCFD recommendations, a more generic term should be used in the [draft] Standard such as ‘governance body’ which would have broader relevance to those entities that do not have a board. The XRB Board agreed with the feedback received and replaced all references to ‘board’ with ‘governance body’. This amendment will accommodate other governing bodies such as an investment committee of a manager of a registered managed investment scheme (MIS manager). The XRB Board also proposed an additional disclosure for an entity to disclose the identity of the governance body responsible for oversight of climate-related risks and opportunities.

BC22. In the GRM consultation document the XRB Board noted the calls from primary users for more information about board skills and competencies in relation to providing oversight of climate-related risks and opportunities. The XRB Board proposed a requirement for an entity to disclose how a board accesses expertise on climate-related risks and opportunities. Feedback received on the GRM consultation, in particular from investor bodies, wanted the XRB Board to strengthen this disclosure. Responding to the feedback received, the XRB Board amended the disclosure requirement to require disclosure of ‘how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities’. The XRB Board acknowledges that in the early years of the regime, this disclosure is likely to reflect an entity’s progress in capacity building and developing competencies.

BC23. The XRB Board highlighted in the GRM consultation that it had proposed a disclosure on how related performance metrics are incorporated into remuneration policies (and also noted that this disclosure was in the TCFD guidance under the Metrics and Targets section). The XRB Board received mixed feedback on this disclosure, with some respondents concerned with the level of prescriptiveness. The XRB Board has decided to keep this proposed disclosure as, in its view, it provides information to primary users on how climate-related targets are embedded throughout an entity and that management is being held accountable for achieving those targets. However, responding to the feedback received, the XRB Board amended this proposed disclosure to make it explicit that the disclosure relating to incorporating performance metrics into remuneration policies is a disclosure of ‘whether and if so, how’ these metrics are incorporated. The XRB Board notes that the ISSB’s draft climate standard contains this disclosure requirement.

BC24. Responding to feedback received from the GRM consultation, the XRB Board also made the following additional changes.

(a) Combined some of the disclosures together for clarity (such as those relating to holding management accountable).

(b) Amended the required disclosures to clarify that an important focus is on the role of the governance body in developing and overseeing an entity’s strategy, rather than disclosures on how issues are merely incorporated into governance processes.

(c) Amended the requirement from a disclosure regarding how management ‘report to’ the board (now governance body), to how management ‘engage with’ the governance body.

Strategy

Approach

BC25. As an overarching approach, the XRB Board has sought to emphasise that the Strategy section is not about an entity having, or not having, a 'climate strategy'. Rather, it is about an entity disclosing to primary users how climate change is impacting and may further impact an entity's ability to deliver on its core strategy. It is also about what an entity is doing, given those impacts and potential impacts, to put itself in a better strategic position and build resilience (which is increasingly now expected to be communicated through a credible transition plan).

BC26. The XRB Board has also engaged directly with sectors to encourage sector-level collaboration on scenario analysis, in parallel with the development of Aotearoa New Zealand Climate Standards. This engagement is intended to ensure entities get started on scenario analysis now in advance of the final standards being issued, putting entities in a position to ensure their scenario analysis disclosures are as consistent and comparable as possible, and to reduce costs and resourcing pressures. Many sectors are actively working to create scenarios at the sector level that entities can draw on to undertake their own scenario analysis. As part of this outreach the XRB Board emphasised the importance of taking an exploratory mindset to scenario analysis given the uncertainty posed by climate change. An entity can start qualitatively and build in quantification over time. The approach should not be purely about identifying climate-related risks and opportunities, but also about testing the resilience of the entity's business model and strategy. Starting out qualitatively and building quantification and sophistication over time on scenario analysis is consistent with the XRB Board's approach to draft NZ CS 1 more broadly, such as in relation to the disclosures on impacts and financial impacts.

International developments

BC27. The changing international context has particularly affected the development of the Strategy section of NZ CS 1. Since the GRM consultation, many highly relevant developments have influenced the thinking of the XRB Board.

(a) In October 2021, the TCFD released new guidance on Metrics, Targets and Transition Plans and updated its Implementation Guidance. Among other topics, this new guidance strengthened the rationale to include a 1.5 degrees Celsius temperature outcome for scenario analysis and provided significant additional guidance about the disclosure of financial impacts.

(b) A large number of new voluntary standards and guidance documents has emerged, particularly on transition plans such as from the Glasgow Financial Alliance for Net Zero and the UK Transition Plan Taskforce. These signalled increasing scrutiny of transition plans and their relative importance to primary users.

(c) The proposed disclosures released by the ISSB and national-level standard setters. For example, the ISSB and the US SEC both defined transition plans to include adaptation (differing from the TCFD definition). The ISSB also proposed allowing alternatives to scenario analysis within its draft standards.

SMT consultation

BC28. The XRB Board received substantial positive feedback from the SMT consultation, as well as a range of suggested changes. Overall, there was a strong sense expressed that meeting the Strategy disclosure requirements would be challenging, which had been anticipated. In response, the XRB Board carefully considered the overall balance of what is practical for preparers at this time, balanced against the information demands of their primary users. To summarise, the feedback from respondents included:

(a) a generally high degree of support for the proposals to add a standalone disclosure of an entity's business model and strategy, and to disclose the methodologies and assumptions associated with scenario analysis;

(b) a generally high degree of support for scenario analysis proposals. Many respondents wanted to see more scenarios disclosed against, and suggested changes to ensure the higher physical risk scenario was sufficiently challenging given the current trajectory of global GHG emissions. Others preferred a more flexible approach. There was a strong desire for consistency and comparability to the greatest degree possible. Some encouraged the XRB Board to go further in relation to sector-level scenario analysis, such as creating a single set of mandated temperature scenarios;

(c) support for transition and adaptation planning disclosures. Some wanted principles-based requirements, whereas others argued for more ambition and prescriptiveness with regard to transition plans that are aligned with 1.5 degrees Celsius global transition pathway and temperature goals, and national and sectoral emissions reduction pathways. Others wanted to see a disclosure requirement for an integrated plan covering both transition and adaptation, to give equal importance to both;

(d) concerns that providing quantification of actual and potential financial impacts will be difficult. Respondents noted that some impacts may be highly challenging to be financially quantified in a meaningful way, due to, for example, the limitations of attribution science. Respondents also requested clarification on the XRB Board's expectations in relation to entities moving from qualitative disclosures of financial impacts to quantitative disclosures of financial impacts, where possible, over time; and

(e) calls from some respondents for the XRB Board to align with various wording and use of terms from the ISSB's draft standards.

BC29. The XRB Board has considered this feedback and made several changes to draft NZ CS 1. At the same time, the XRB Board has continued to bear in mind its design principles and further international developments, including demands from primary users. Responding to the feedback received, the XRB Board amended the disclosure requirements as part of draft NZ CS 1, including moves to:

(a) align the structure of the Strategy section more closely with the ISSB's draft climate standard, in a way that creates a clear logical flow, including adding new sub-headings;

(b) remove reference to adaptation plans and their associated first-time adoption provisions, to ensure entities do not inadvertently see adaptation as less important. The concept of transition (specifically, the definition of transition risk) was defined more broadly to capture adaptation more explicitly, in line with global developments and to enable the disclosure of a more integrated transition plan;

(c) address the feedback received on transition plan alignment with a 1.5 degrees Celsius scenario primarily in staff guidance. This is due to the fast-moving nature of transition plan expectations and the fact that disclosure on the alignment of targets is required in the Metrics and Targets section;

(d) add a requirement to explore a third scenario to avoid two scenarios being seen as opposites or 'good and bad';

(e) amend the 'greater than 2 degrees Celsius scenario' to a '3 degrees Celsius or greater scenario' to avoid entities not exploring challenging physical risk scenarios and improve scenario diversity;

(f) align with the ISSB climate-related disclosures exposure draft on some specific use of wording, such as disclosing qualitative and quantitative information on financial impacts and the qualifier on climate-related risks and opportunities 'reasonably expected' by the entity;

(g) Remove reference to business model and strategy in some places and some definitions to make the disclosures more principles based and to further ensure they are workable for financial institutions, particularly MIS managers;

(h) add a disclosure for entities which are 'unable to' disclose quantitative information for financial impacts. This is in line with ISSB's proposals and helps to avoid attempted quantification of some impacts which are ultimately unsuited to being quantified and would be clearer to primary users presented in a qualitative manner; and

(i) continue the work to encourage sector-level scenario analysis. Some of the suggestions made by respondents for further work in this area (for example, relating to climate data availability) are ultimately beyond the XRB Board's control, but the XRB Board will continue to closely monitor progress on scenario analysis and engage with central government regarding access to data.

Risk Management

Approach

BC30. The Risk Management disclosures in draft NZ CS 1 are very closely aligned with the TCFD recommendations. The XRB Board notes that the proposed Risk Management requirements focus on disclosing the processes for identifying, assessing and managing climate-related risks and not climate-related opportunities. The XRB Board considers this is appropriate. However, the XRB Board believes the consideration of climate-related opportunities is equally important and recognises that risk management processes may facilitate the identification of climate-related opportunities.

GRM consultation

BC31. The XRB Board proposed some additional specific disclosures additional to the TCFD recommendations in the GRM consultation. These were the tools and methods used, the time horizons considered, and the value chain stages covered. The XRB Board also specified that the risk management disclosures are to be made for both transition and physical risks.

BC32. Some respondents to the GRM consultation expressed concerns with the disclosure of information about the value chain stages covered. The XRB Board believes that climate-related risks and opportunities relate to activities, interactions, and relationships and to the use of resources along an entity's value chain. When considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. In the XRB Board's view, disclosure of this information supports evaluations by primary users of an entity's overall risk profile and the quality and robustness of an entity's risk management activities. However, the XRB Board has reflected on feedback received that the disclosure as drafted may result in voluminous disclosures. To address this concern, the XRB Board have amended the disclosure to require disclosure as to whether any parts of the value chain are excluded.

BC33. Also in response to feedback received on the GRM consultation, the XRB Board combined disclosure requirements relating to the processes for prioritising risks. The XRB Board agreed that the way the requirements were written required further clarity.

BC34. The Risk Management disclosures in the GRM consultation included a requirement for an entity to disclose how it makes decisions to mitigate, transfer, accept, or control climate-related risks. Since the GRM consultation was issued, the XRB Board has developed the proposed Strategy disclosures. One of the proposed Strategy disclosures is a requirement for an entity to disclose transition aspects of its strategy. Considering this, the XRB Board has decided to remove the disclosure on how an entity makes decisions to mitigate, transfer, accept, or control climate-related risks from the Risk Management disclosures.

Metrics and Targets

Approach

BC35. Primary users need to understand how an entity measures and manages its climate-related risks and opportunities. Disclosure of the metrics and targets used by an entity allows primary users to better assess an entity's potential risk-adjusted returns, ability to meet financial obligations, general exposure to climate-related risks and opportunities, and progress in managing or adapting to those climate-related risks and opportunities.

BC36. Climate-related metrics can be generally categorised into two groups—those that apply to all entities (cross-industry) and those that are specific to an industry (industry-specific). The TCFD identified seven categories of cross-industry metrics. In selecting these cross-industry metric categories, the TCFD sought to emphasise categories that meet several criteria.

(a) Indicative of many basic aspects and drivers of climate-related risks and opportunities.

(b) Useful for understanding how an organisation is managing climate-related risks and opportunities.

(c) Widely requested by climate reporting frameworks, lenders, investors, insurance underwriters, and regional and national disclosure requirements.

(d) Key inputs for estimating financial impacts of climate change on organisations.

BC37. The XRB Board followed this approach in drafting NZ CS 1 and included the TCFD list of seven cross-industry metric categories in the SMT consultation. The draft ISSB climate standard also includes this list of cross-industry metric categories.

BC38. In terms of industry-specific metrics, the XRB Board considers that entities should report those metrics which are actually used to manage climate-related risks and opportunities. These may be industry-specific or entity-specific metrics. The decision not to specify industry-specific metrics aligns with the XRB Board's design principles.

BC39. The XRB Board, however, acknowledges that the TCFD provides guidance on industry-specific metrics which are likely to be useful for management purposes and that the ISSB's draft climate standard has proposed an extensive list of industry-specific metrics drawn from SASB Standards. The XRB Board intends to watch domestic and global developments in this space and will consider whether a list of industry-specific metrics should be included in future updates to NZ CS 1, if required for disclosure comparability.

BC40. The XRB Board's proposed disclosure requirements for targets were drawn from the TCFD recommendations and guidance. These are largely mirrored in the ISSB's draft climate standard. However, the XRB Board notes that the ISSB's draft climate standard contains some additional disclosure requirements including, how an entity's targets compare with those created in the latest international agreement on climate change and whether the target was derived using a sectoral decarbonisation approach. The XRB Board decided not to include these additional disclosure requirements in draft NZ CS 1, instead they will be included in the draft staff guidance document as additional items of information that an entity may wish to disclose.

BC41. The XRB Board recognises that there are existing globally accepted and commonly used GHG emissions measurement and reporting standards, including the GHG Protocol Corporate Accounting and Reporting Standard (GHG Protocol) and ISO 14064-1 – Greenhouse gases. Therefore, the XRB Board did not mandate a single approach, but instead the XRB Board proposes that an entity disclose the standards it used to measure its GHG emissions. In the XRB Board's view the outcome of measurement will be close to the same regardless of the standard used.

BC42. The XRB Board decided not to require a particular consolidation approach (for example, equity share, operational control or financial control). While the choice of consolidation approach can move emissions between scopes, the XRB Board believes that with the inclusion of scope 3 value chain emissions the total emissions disclosed will be similar irrespective of the consolidation approach applied. Instead, the XRB Board is proposing that the consolidation approach used is disclosed.

BC43. The XRB Board decided to use the term 'gross' GHG emissions rather than 'absolute' as used by the TCFD.[7] The ISSB's draft climate standard uses 'gross absolute'. The XRB Board's intention is that an entity should report its emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. This includes accounting for scope 2 emissions using the location-based methodology and reporting any removals separately. This shows the total GHG emissions attributable to an entity. The XRB Board believes that this is a transparent approach which will focus attention on emissions reductions rather than offsetting and can help to avoid allegations of greenwashing. This approach is consistent with the GRI Standard 305

[7] Gross is a defined term in draft NZ CS 1.

disclosures. The XRB Board notes that an entity can provide additional disclosures such as market-based emissions if this is how an entity measures and manages its climate-related risks and opportunities.

BC44. Draft NZ CS 1 requires disclosure of scope 3 GHG emissions for all entities. The scope 3 categories from the GHG Protocol have been included in the definition of scope 3. For most entities scope 3 is where the most significant emissions risks and opportunities lie, and it is important for entities and primary users to understand these risks and opportunities.[8] The XRB Board also believes it is important for an entity to understand all of its scope 3 emissions in order to develop a credible transition plan. This stance is supported by the XRB's EAP.

SMT consultation

BC45. The XRB Board received largely supportive feedback from the SMT consultation relating to the cross-industry metric categories, and a large number of comments on the industry-specific metrics. The majority (80%) supported the decision not to specify industry-specific metrics in draft NZ CS 1. Respondents also considered that it would be useful for the XRB's accompanying staff guidance to recommend where entities could look to identify metrics which might be suitable for their entity.

BC46. The SMT consultation included a proposed requirement to disclose whether an entity's target was science based. Eleven submissions were received on the use of the term 'science based', including requests for a definition. There was some concern that only validated Science Based Targets Initiative targets would be acceptable. In response to this feedback, the XRB Board decided to reword the proposed disclosure requirement to 'whether the target is aligned with science'. The XRB Board decided not to make 'aligned with science' a defined term, as it is a particularly fast-moving area and what is considered to align with science may change rapidly. The XRB Board decided that the draft staff guidance document will contain additional information for entities on alignment with science.

BC47. Feedback was also received from the SMT consultation about an entity's use of offsets in achieving its targets. In response to this feedback an additional disclosure was proposed on the use of offsets for those entities which choose to use them. The XRB Board also notes that the ISSB's draft climate standard includes disclosure on offsets in the section on transition plans. It is the XRB Board's view that transition plans should be focused on gross emissions reductions, rather than offsets.

BC48. The SMT consultation proposed disclosure of the source of GHG emissions factors, the global warming potential rates used and a summary of exclusions. These disclosures were proposed to enable primary users to understand how GHG emissions have been calculated. However, following consultation feedback, the disclosure for the source of GHG emissions factors and global warming potential rates was removed as there was no specific support for this disclosure.

BC49. The XRB Board proposed in the SMT consultation that an entity was required to prepare a GHG emissions report, and disclose the standards, protocols and methodologies that the GHG emissions report had been prepared in accordance with. The XRB Board proposed that the GHG emissions report would be an integral part of the disclosures, be required to be publicly available, and be subject to assurance. Feedback received from the SMT consultation questioned the requirement for an entity to prepare and publicly disclose a separate GHG emissions report. Some respondents argued that the requirement to prepare a GHG emissions report was unnecessarily onerous, and not required in order to provide scope 1, 2 and 3 emissions disclosures. Based on this feedback, the XRB Board decided to remove the proposed requirement to prepare a GHG emissions report. The revised proposals require an entity to disclose the recognised standard or standards that its GHG emissions have been measured in accordance with. In addition, proposed disclosure requirements were strengthened in draft NZ CS 3, in particular the addition of requirements on GHG methodologies, assumptions and estimation uncertainty (see paragraphs 51-53 of draft

[8] Analysis performed using data from CDP's supply chain programme indicates that a given company's scope 3 emissions average some 11.5 times higher than its direct accountable emissions (CDP, 2021, Supply Chain Report 2020). Among financial institutions, scope 3 emissions account for an even higher share of overall emissions, with portfolio emissions on average over 700 times higher than direct emissions (CDP, 2021, The Time to Green Finance). For financial institutions this will mean measuring the financed emissions of a portfolio. This enables financial institutions to set targets, inform actions, and disclose progress. Understanding these emissions is crucial for portfolio alignment and decarbonisation.

NZ CS 3). The XRB Board's intent with the revised proposals is to allow flexibility for entities and reduce compliance costs for those entities that do not wish to prepare a more detailed standalone report.

BC50. The proposed requirement for an entity to disclose its scope 3 emissions was supported by most of the feedback received from the SMT consultation.

Assurance

BC51. Section 461ZH of the Act requires an entity to ensure that aspects of its climate statements that disclose GHG emissions are the subject of an assurance engagement. These assurance requirements apply to an accounting period that commences before but ends after the third anniversary of Royal Assent of the Act.

BC52. The Act received Royal Assent on 27 October 2021. This means that entities will be required to get GHG emissions disclosures assured for any accounting period (including any open accounting period) that ends on or after 27 October 2024. Assuming that the XRB issues NZ CS 1 in December 2022 as intended, all entities will publish at least one climate statement before assurance is required over GHG emissions disclosures.

Level of assurance

BC53. Typically, the level of assurance is determined in legislation. However, in this instance, the XRB Board will specify the minimum required level of assurance as part of the climate-related disclosure framework.

BC54. The XRB Board has considered this topic in two main ways. First, existing practice was surveyed.[9] This survey focused on levels of assurance for early adopters in New Zealand. For those entities that are currently reporting emissions (74), 51% do not appear to obtain assurance. Of those that do obtain assurance (36), the majority (75%) get assurance to a reasonable standard over their scope 1 and 2 GHG emissions, and, to a lesser extent, over some scope 3 GHG emissions where they are easy to measure, i.e., travel and waste.

BC55. However, the proposed disclosures in draft NZ CS 1 include all scope 1, 2 and 3 GHG emissions. Given that certain types of emission estimates are subject to high estimation uncertainty, it may be disproportionally difficult for the assurance practitioner to obtain additional evidence to reduce the engagement risk to provide a reasonable level of assurance. In addition, the information systems and controls that underpin the GHG emissions information are often developed over time, limiting the assurance practitioner's ability to rely on the entity's controls to reduce the engagement risk. The XRB Board believes that, at this time, the cost is likely to outweigh the benefit of increasing the minimum level of assurance from limited to reasonable. It should also be noted that entities that are voluntarily obtaining assurance are early adopters and so are likely to be further advanced than most other entities in this regime.

BC56. Second, the XRB conducted a series of expert sessions on the assurance of GHG emissions. At these sessions, concerns were raised about the financial burden of requiring reasonable assurance over certain categories of scope 3 emissions. Feedback from the SMT consultation overwhelmingly supported the level of assurance being set at limited.

BC57. The XRB Board concluded that the minimum level of assurance for GHG emissions should be set at limited assurance. The XRB Board noted that an entity may obtain reasonable assurance over some or all of its GHG emissions disclosures if it wishes.

Scope of assurance engagement

BC58. For clarity for both an entity and the assurance practitioner, the XRB Board has identified the scope of the assurance engagement in NZ CS 1 (paragraphs 24 and 25). Emissions intensity disclosures are considered to be outside the scope of assurance as are any industry-specific metrics which include GHG emissions.

[9] Tiller, D. and Ryan, J. (2021). A recent survey of GHG emissions reporting and assurance, The Australian Accounting Review, https://doi. org/10.1111/auar.12364.

BC59. The SMT consultation included the assurance of a separate GHG emissions report as part of the assurance engagement. With the removal of the requirement to prepare a GHG emissions report this was also removed from the proposed assurance requirements. No feedback was received on the proposed scope of the assurance engagement from the SMT consultation.