

Aotearoa New Zealand Climate Standard 2

First-time Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2)

Exposure Draft

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EXPOSURE DRAFT

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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 date in paragraph B1 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 [draft] Standard has been issued as a result of the New Zealand Government enacting legislation to require certain entities to prepare climate-related disclosures.

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ISBN

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[Draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards* is set out in paragraphs 1 to 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 [draft] Standard. This [draft] Standard should be read in the context of its objective and the Basis for Conclusions.

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Objective

1. In recognition that it may take time to develop the capability to produce high-quality climate-related disclosures, this [draft] Standard provides a limited number of first-time adoption provisions (adoption provisions) from the disclosure requirements in Aotearoa New Zealand Climate Standards.

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. An entity may apply this [draft] Standard when it prepares and presents its climate statements or group climate statements on the first-time adoption of Aotearoa New Zealand Climate Standards. This means that:
 - (a) the first time that an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards, it may apply the *first reporting period* adoption provisions.
 - (b) The second time that an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards, it may apply the *second reporting period* adoption provisions.
5. This [draft] Standard does not apply to an interim period.

First-time adoption provisions

6. An entity may elect to use one or more of the adoption provisions contained in this [draft] Standard. Some of the adoption provisions exempt certain disclosures whereas other adoption provisions require alternative information to be disclosed.

Strategy

First-time adoption provision 1: Current financial impacts

7. Paragraph 11(b) of [draft] NZ CS 1 *Climate-related Disclosures* requires the following disclosure:

the current financial impacts of its physical and transition impacts identified in paragraph 11(a).
8. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
9. If an entity elects to make use of the adoption provision in paragraph 8, this [draft] Standard also provides an exemption from paragraph 11(c) of [draft] NZ CS 1:

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

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

First-time adoption provision 2: Time horizons associated with financial impacts

10. Paragraph 13(b) of [draft] NZ CS 1 requires the following disclosure:
- a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact.
11. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.

First-time adoption provision 3: Anticipated financial impacts

12. Paragraph 14(b) of [draft] NZ CS 1 requires the following disclosure:
- the anticipated financial impacts of climate-related risks and opportunities reasonably expected by the entity.
13. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
14. If an entity elects to make use of the adoption provision in paragraph 13, this [draft] Standard also provides an exemption from paragraph 14(c) of [draft] NZ CS 1:
- if the entity is unable to disclose quantitative information for paragraph 14(b), an explanation of why that is the case.

First-time adoption provision 4: Transition plan aspects of an entity's strategy

15. Paragraphs 15(b) and 15(c) of [draft] NZ CS 1 require the following disclosure:
- 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
 - the extent to which transition plan aspects of its strategy are aligned with its financial planning processes, including for capital deployment and funding.
16. This [draft] Standard provides an exemption from these disclosure requirements in an entity's first reporting period.
17. If an entity elects to make use of the adoption provision in paragraph 16, it must provide a description of its progress towards developing the transition plan aspects of its strategy, in its first reporting period.

Metrics and Targets**First-time adoption provision 5: Scope 3 GHG emissions**

18. Paragraph 21(a)(iii) of [draft] NZ CS 1 *Climate-related Disclosures* requires the following disclosure:
- greenhouse gas (GHG) emissions: gross emissions in metric tonnes of carbon dioxide equivalent (CO₂e) classified as scope 3.
19. Although disclosure of scope 3 GHG emissions is encouraged for all entities on adoption of Aotearoa New Zealand Climate Standards, this [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.

Comparatives for metrics**First-time adoption provision 6: Comparatives for metrics**

20. Paragraph 39 of [draft] NZ CS 3 *General Requirements for Climate-related Disclosures* requires the following disclosure:
- For each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information.

21. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
22. In an entity's second reporting period, this [draft] Standard permits an entity to provide one year of comparative information for each metric.

First-time adoption provision 7: Analysis of trends

23. Paragraph 40 of [draft] NZ CS 3 requires the following disclosure:

An entity must disclose an analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period.
24. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first and second reporting period.

Use of first-time adoption provisions

25. If an entity elects to use any of the adoption provisions in this [draft] Standard, it must include a description of the adoption provisions used in conjunction with its statement of compliance with Aotearoa New Zealand Climate Standards (see NZ CS 3 paragraph 54).

Appendix A

Defined terms

This appendix is an integral part of [draft] NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards* and has the same authority as the other parts of this [draft] Standard.

first reporting period	The first climate-related disclosures in which an entity adopts Aotearoa New Zealand Climate Standards, by an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards.
second reporting period	The second climate-related disclosures in which an entity adopts Aotearoa New Zealand Climate Standards, by an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards.

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.
greenhouse gas (GHG)	The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO ₂); methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF ₃), perfluorocarbons (PFCs), and sulphur hexafluoride (SF ₆).
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.
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.

Appendix B

Effective date

This appendix is an integral part of [draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards* and has the same authority as the other parts of this [draft] Standard.

Effective date

- B1. An entity must apply this [draft] Standard for annual reporting periods beginning on or after [1 January 2023].

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EXPOSURE DRAFT

Basis for Conclusions on [draft] NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards*

This Basis for Conclusions accompanies, but is not part of, [draft] NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards*.

Introduction

- BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing draft NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards* as part of the climate-related disclosure framework for Aotearoa New Zealand.
- BC2. The XRB Board is aware that the depth of understanding of climate-related risks and opportunities varies substantially across entities, and that capability to enable high-quality climate-related disclosures takes time to develop. Rather than delay the application of Aotearoa New Zealand Climate Standards the XRB Board has issued this [draft] Standard to provide first-time adoption provisions (adoption provisions) to assist entities while developing that capability.
- BC3. Adoption standards offer various provisions to entities when a new standard or new requirements are to be applied for the first time, and can include practical expedients, phased adoption, or relief from providing comparative information. Those entities that are more advanced in their climate reporting journey may choose not to apply any of the adoption provisions in this [draft] Standard.

Scope

- BC4. The XRB Board has included paragraph 4 in the scope section of draft NZ CS 2 to make it clear that the adoption provisions are available to entities the first time an entity adopts Aotearoa New Zealand Climate Standards. For example, a climate reporting entity could drop out of the reporting regime because it is no longer large, but subsequently becomes large in a future reporting period. The XRB Board's view is that the entity should not be able to take advantage of any adoption provisions in the future reporting period(s).

Governance and Risk Management

- BC5. In October 2021, the XRB Board published the Governance and Risk Management Consultation Document (GRM consultation). In the GRM consultation, the XRB Board requested feedback on its preliminary view that adoption provisions were not required for the Governance and Risk Management sections of draft NZ CS 1 *Climate-related Disclosures*. The XRB Board considered that providing information to meet the proposed requirements was not onerous, as an entity was required to disclose its current activities.
- BC6. Most respondents agreed with the XRB's preliminary view that adoption provisions were unnecessary for the Governance and Risk Management disclosures. Of those respondents who advocated for adoption provisions, the primary arguments related to recognising that many entities are in the early stages of developing their capability in relation to climate-related reporting, and that it can be a large task for entities to implement climate risk frameworks.
- BC7. The XRB Board acknowledges the feedback received but notes that the intent of both the Governance and Risk Management sections of draft NZ CS 1 is for an entity to disclose the extent of its activities, not to require a certain level of performance. An entity will be able to meet the Governance and Risk Management disclosures by describing its current processes and activities. The XRB Board has therefore not proposed any adoption provisions for the Governance and Risk Management disclosures in draft NZ CS 2.

Strategy

- BC8. In March 2022, the XRB Board published the Strategy, and Metrics and Targets Consultation Document (SMT consultation). In the SMT consultation, the XRB Board requested feedback on its preliminary views on adoption provisions for the proposed Strategy disclosures. The XRB Board proposed the following adoption provisions:
- (a) an exemption from disclosing time horizons for financial impacts in an entity's first reporting period;
 - (b) an exemption from quantifying actual and potential financial impacts in an entity's first reporting period (an entity would be required to disclose qualitative information in its first reporting period);
 - (c) an exemption from disclosure of transition plan aspects of an entity's strategy in its first reporting period (an entity would be required to disclose progress towards developing a transition plan in its first reporting period); and
 - (d) an exemption from disclosure of adaptation plan aspects of an entity's strategy in its first and second reporting period (an entity would be required to disclose progress towards developing an adaptation plan in its first and second reporting period).
- BC9. Most respondents agreed with the proposed adoption provisions in the SMT consultation. However, concerns were raised in the Strategy feedback that quantifying actual and potential financial impacts will be difficult (see paragraph BC 28(d) in draft NZ CS 1). Responding to this feedback, the XRB Board is proposing amendments to the requirements in draft NZ CS 1 (see paragraphs 11 and 14 of draft NZ CS 1). The XRB Board has also decided to include a proposed exemption from providing current financial impacts and anticipated financial impacts in an entity's first reporting period (see paragraphs 8 and 13).
- BC10. A few respondents requested that the XRB Board align the adoption provisions for transition and adaptation planning rather than allowing an extra year for the disclosure of adaptation planning. The XRB Board is proposing amendments to the Strategy disclosures in draft NZ CS 1 for transition and adaptation planning. (See paragraph 15 in draft NZ CS 1, and paragraph BC 29(b) in draft NZ CS 1 for an explanation of these amendments.)
- BC11. The XRB Board carefully considered but ultimately decided against providing adoption provisions for Strategy disclosures relating to scenario analysis in the SMT consultation. Scenario analysis plays a core role in the broader context of draft NZ CS 1. Scenario analysis should precede the calculation of anticipated financial impacts, as well as transition planning aspects of an entity's strategy. This is because scenario analysis provides entities with systemic insights into how future climate-related risks and opportunities might affect their business models and strategies. Further, if adoption provisions for scenario analysis were included, the XRB Board consider that adoption provisions for current and anticipated financial impacts, and transition planning would subsequently need to be further delayed. Such delays would create broader risks for the financial system if this information was not disclosed until 2025–2030, in the context of New Zealand's 2030 emissions reduction target.
- BC12. Although some respondents to the SMT consultation requested relief from scenario analysis, they were fewer than anticipated. Many respondents also mentioned (including during informal consultation), that it is important that entities start now on this work. The XRB Board is therefore keeping to its original proposals of not providing adoption provisions for scenario development. The XRB Board also considers that its encouragement of sectors to come together to produce sector-level scenarios may reduce the burden for a significant number of entities.

Metrics and Targets

- BC13. Apart from the adoption provision exempting the disclosure of comparative information for metrics, the XRB Board did not propose any adoption provisions for Metrics and Targets in the SMT consultation.

- BC14. While respondents agreed with the requirement to disclose scope 3 greenhouse gas (GHG) emissions, many respondents highlighted challenges with measuring these emissions. Particular areas of concern were financed and underwritten emissions, including concerns raised about the lack of methodology for insurance underwriters. Respondents requested that the XRB Board consider providing some adoption relief from the disclosure of scope 3 GHG emissions.
- BC15. The XRB Board considered options for providing relief from the disclosure of scope 3 GHG emissions, including whether to provide an exemption from disclosing certain scope 3 categories in the first year of reporting, for example, category 15 financed emissions. The XRB Board decided, on balance, to provide an exemption from disclosing all scope 3 GHG emissions in an entity's first reporting period (see paragraph 19).
- BC16. Although the XRB Board has provided an exemption from disclosure for the first year of reporting, it strongly encourages entities to start measuring their scope 3 GHG emissions now. Starting to measure now will put entities in good stead for disclosure of these emissions as part of their second year of reporting. Importantly also, for most entities, scope 3 emissions are where their most significant emissions risks and opportunities lie. Obtaining a clear picture of the scale and scope of these emissions sources will greatly assist entities to understand their climate-related risks and opportunities and assist with transition planning.
- BC17. Furthermore, the XRB Board notes that the GHG Protocol Corporate Accounting and Reporting Standard, the Corporate Value Chain (Scope 3) Accounting and Reporting Standard and ISO 14064-1:2018 – Greenhouse gases, allow entities to exclude emission sources, facilities and/or operations under certain limited circumstances. Any specific exclusions of sources must be disclosed with a justification for their exclusion. The XRB Board believes the justification of exclusions is an important disclosure and has included it in draft NZ CS 1 (see paragraph 23(c) in draft NZ CS 1).
- BC18. Some respondents requested first-time adoption provisions in relation to Metrics and Targets generally. They cited concerns that the Task Force on Climate-related Financial Disclosures (TCFD) cross-industry metrics were relatively new, and that there was a lack of data and time was needed for entities to put in place systems to measure and track these metrics and related targets. The XRB Board acknowledges the concerns raised; however, the XRB Board believes that entities should be able to provide the metrics identified in the disclosure requirements, albeit with a higher level of uncertainty or estimation. The XRB Board notes the importance of transparency on how entities have calculated metrics and targets and the levels of uncertainty or estimation. The XRB Board has included disclosure requirements in draft NZ CS 3 on significant assumptions and level of uncertainty to ensure primary users are provided with sufficient information to make their decisions.

Comparative Information

- BC19. The XRB Board notes that because Aotearoa New Zealand Climate Standards are based on TCFD recommendations, those entities which have been voluntarily applying the TCFD recommendations may be able to apply a retrospective approach and provide comparative metrics in the first reporting period. However, the XRB Board acknowledges that not all entities will be able to use a retrospective approach. So, the XRB Board decided to include adoption provisions for comparative information. This means that entities will not have to provide comparatives for metrics in the first year of reporting and only one year of comparatives for the second year of reporting (see paragraphs 21 and 22).

Analysis of Trends

- BC20. Because the XRB Board decided to include an adoption provision for comparative information, entities are also given an exemption from having to disclose an analysis of main trends in the first two reporting periods (see paragraph 24).