27 July 2022

M. Emmanuel Faber
Chair of the International Sustainability Standards Board
IFRS Foundation
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United Kingdom

Submitted to: www.ifrs.org

Dear Emmanuel,

Exposure Drafts – [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

Thank you for the opportunity to comment on the two exposure drafts. We are supportive of the work of the International Sustainability Standards Board (**ISSB**) and encourage the ISSB to continue to engage broadly to develop sustainability disclosure standards and to provide thought leadership on emerging issues with respect to sustainability and climate-related disclosures.

The External Reporting Board (**XRB**) has been empowered to issue climate-related standards under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. Reporting in accordance with the XRB's standards will be mandatory for large banks, insurers, asset managers and listed issuers. We have undertaken a substantial amount of consultation over the last 18 months. This experience gives us insight into reporting in relation to both draft IFRS standards, particularly [Draft] IFRS S2 and has significantly informed the comments we are making in this submission. All information relating to our consultation is available on the XRB website at www.xrb.govt.nz/standards/climate-related-disclosures/.

Our proposed climate-related disclosure framework comprises a suite of climate standards, referred to collectively as *Aotearoa New Zealand Climate Standards*. These are:

[Draft] Aotearoa New Zealand Climate Standard 1 (NZ CS 1)	*Climate-related disclosures*
[Draft] Aotearoa New Zealand Climate Standard 2 (NZ CS 2)	*First-time adoption of Aotearoa New Zealand Climate Standards*
[Draft] Aotearoa New Zealand Climate Standard 3 (NZ CS 3)	*General Requirements for Climate-related Disclosures*

We submit, as supporting material, PDF versions of the three exposure drafts and supporting consultation material. We hope that this material will prove useful to the ISSB.

We are also developing a non-binding reporting framework that, in the first instance, will take a te ao Māori (indigenous Māori worldview) focus. This work has also informed our submission, particularly on [Draft] IFRS S1.

The remainder of this letter outlines our main comments and recommendations. We provide more detailed comments and additional recommendations in Appendices 1-3 and provide a consolidated list of recommendations in Appendix 4.

Main points common to [Draft] IFRS S1 and [Draft] IFRS S2

We support the development of high-quality global sustainability disclosure standards. We commend the ISSB for the degree to which it has sought to ensure that the requirements in [Draft] IFRS S1 and [Draft] IFRS S2 reflect the rapidly rising maturity of voluntary reporting by preparers and the expectations of primary users. We also agree that sustainability-related information should be required to be provided by the same reporting entity and for the same reporting period as the related financial statements.

However, we consider that both standards could be improved by taking a more principles-based approach to achieve their goal of acting as a global baseline for disclosure. The two draft standards contain requirements, explanations and examples which are not necessarily internally consistent or universally applicable. This may create an unnecessary barrier to adoption by some countries and jurisdictions. It also makes the standards less clear and harder to navigate.

Main comments on [Draft] IFRS S1 General requirements for Disclosure of sustainability-related financial information

We have two main comments on [Draft] IFRS S1. First, we agree that high quality, consistent and useful information for decision making by primary users on sustainability matters is critical. We support the ISSB's efforts to drive consistency globally and deliver a global baseline for sustainability reporting. Given [Draft] IFRS S1 is intended to create a global baseline we suggest changes below to ensure it can operate effectively in the context of emerging practice and rapidly growing maturity on sustainability-related disclosures.

Second, we consider that the ISSB should be more ambitious by working towards 'one pillar' for creating a global baseline for sustainability reporting rather than seeking to create two pillars that are interoperable. We also consider that [Draft] IFRS S1 would be improved by:

- meaningfully consulting with indigenous peoples to develop a deeper understanding of sustainability; and
- considering alternative definitions of sustainability and value.

We provide more detailed comments on [Draft] IFRS S1 in **Appendix 1**.

Main comments on [Draft] IFRS S2 Climate-related disclosures

Given the urgency of the climate crisis, we support the ISSB's objectives to create a global baseline for climate reporting, based on the Task Force on Climate-related Financial Disclosures (TCFD)

framework. This is practical and appropriate given the speed with which the global community needs to respond to climate change. We commend the ISSB's agility in developing and delivering an ambitious climate prototype and standard for exposure.

We support the strong degree of alignment with the TCFD, which we consider critical to creating a global baseline for climate-related disclosures. This is due to the existing voluntary practice and guidance available to preparers, and familiarity regarding the core concepts laid out by the TCFD.

Comments on the four main sections

We broadly support the proposed content in relation to Governance, Strategy, Risk Management, and Metrics and Targets.

The Governance section strikes a good balance between being principles-based and prescriptive. The ISSB has added useful and pragmatic disclosures to those recommended by the TCFD.

The Risk Management section is also well aligned to the TCFD recommendations. Our main recommendation is to remove the proposed disclosures in relation to processes by which climate-related opportunities are identified, assessed and managed.

We have mixed views on the Strategy section. We consider that the requirements on financial impact disclosures strike a good balance between quantitative and qualitative information. We also support the inclusion of disclosures on scenario analysis, transition plans and the methodologies and assumptions used for scenario analysis. We agree that the disclosures on methodologies and assumptions play a crucial role in enabling primary users to understand what preparers have considered in exploring plausible climate futures.

We suggest changes to the Strategy section particularly in relation to the more detailed financial impact disclosures, the disclosures relating to the results of scenario analysis and transition plans and offsets. We do not support permitting alternatives to scenario analysis.

Regarding Metrics and Targets, we support the inclusion of the TCFD recommended cross-industry metrics and greenhouse gas emissions (including Scope 3). Information on Scope 1, 2 and 3 emissions is increasingly becoming core business information that primary users expect entities to understand and disclose. We do not support the inclusion of industry-specific requirements.

[Draft] IFRS S2 – Responses to the ISSB's questions

Our most important comments on the questions for respondents in [Draft] IFRS S2 relate to questions 3, 5 and 11. We summarise our comments on those questions below. We provide more detailed information in relation to questions 3, 5, 11, along with our comments on other questions in **Appendices 2 and 3**.

Question 3: Identification of climate-related risks and opportunities

We recommend removing the concept of 'significant' risks and opportunities throughout both exposure drafts and relying on the well understood concept of 'materiality' that underpins financial reporting. This avoids the ISSB needing to provide lengthy explanations as to how the two concepts would be practically applied. It also better aligns with existing market practice.

Question 5: Transition plans and carbon offsets

Whilst we generally support disclosure on the use of offsets, we disagree with the statement in

paragraph BC79 of [Draft] IFRS S2 that they '…can play an important role in the transition plans.' It is generally accepted internationally that offsets cannot be an important part of a credible, long term transition plan for individual corporate or financial entities.

We propose the following specific changes in relation to offsets:

- Remove the references to carbon offsets in the Strategy and Decision-making section;
- Add an offset-related disclosure requirement to the Metrics and Targets section as it relates to GHG emissions reductions targets, as that is a more appropriate place;
- Refer to offsets more generally, not just carbon offsets; and
- Amend the transition plan definition to include specific reference to the transition towards a 'low-emissions, climate resilient' future/economy.

Question 11: Industry-based requirements

We do not agree with the proposal to require the use of industry-based SASB Standards. Those standards were designed to be compatible with US GAAP, not IFRS® Accounting Standards. It is yet to be determined whether each of the SASB industry standards is either best practice or fits the needs of other jurisdictions. As is the case with IFRS® Accounting Standards, there should be due process in relation to every individual standard before they are mandated. We recommend that SASB standards should instead be issued as non-binding guidance.

We also have concerns about issuing separate industry-specific metrics. We consider that the comparability qualitative characteristic of useful financial information described in the IASB's Conceptual Framework for Financial Reporting is equally relevant to sustainability reporting metrics.

XRB's recommendations

Appendix 4 provides a consolidated list of our recommendations.

If you have any queries or require clarification of any matters in this letter, please contact me (april.mackenzie@xrb.govt.nz).

Yours sincerely,

April Mackenzie
Chief Executive

Appendices

Appendix 1: Comments on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
Appendix 2: Comments on [Draft] IFRS S2 Climate-related Disclosures
Appendix 3: Detailed comments on [Draft] IFRS S2 (Question 5) as it relates to offsets
Appendix 4: Consolidated list of the XRB's recommendations

Appendix 1: [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

The name of the standard

We suggest that the word 'Financial' be removed from the name of [Draft] IFRS S1. We understand that the purpose of 'Financial' is to indicate that sustainability-related information should be disclosed if it is financially material. However, [Draft] IFRS S1 and other more specific standards that will be issued by the ISSB will require few if any financial disclosures. Our view is that the name of [Draft] IFRS S1 would be more accurate if 'Financial' were to be removed. It would also be consistent with the name of [Draft] IFRS S2: Climate-related Disclosures.

Question 1—Overall approach

The ISSB has stated that "…a comprehensive reporting system, which combines financial and impact materiality for sustainability reporting, is possible on a global scale. Aligning GRI's established and widely adopted standards for sustainability impacts with the investor-focused standards being developed by the ISSB will benefit both companies and investors, as well as a wide range of stakeholders around the world."[1]

We are aware that alignment is work in progress. Nevertheless, there appears to be a fundamental tension between the stated idea of alignment and the idea of 'two pillars' for sustainability reporting (i.e., a focus on capital markets and investors by the ISSB, and a focus on multi-stakeholder reporting by GRI).[2] We do not support a two pillars approach. The ISSB should work towards one pillar for sustainability reporting rather than seeking to create two pillars that are interoperable.

Further work to adapt [Draft] IFRS S1 to include multistakeholder impact reporting will reduce the risk of global divergence, reduce duplication for preparers and support global alignment. The ISSB is well placed to deliver this, and to do so it needs to have further regard to multistakeholder, impact reporting through additional technical work. The ISSB's Memorandum of Understanding[3] with the GRI signals the respective intentions, but we encourage the acceleration of joint efforts to bring these areas more closely together before progressing with issuing [Draft] IFRS S1. Other organisations should be involved in this, including the World Economic Forum and UNEP Finance Initiative. Indigenous peoples should also participate, for the reasons outlined below.

We also recommend critically assessing whether the TCFD framework (Governance, Strategy, Risk Management, and Metrics and Targets) is appropriate for either a single or two pillar approach to sustainability reporting (including in relation to the disclosures relating to impacts as discussed below). From the exposure draft materials provided, it appears that little, if any analysis or engagement has been undertaken on whether a structure specifically designed for climate change is appropriate for broader sustainability reporting.

Question 2—Objective

We consider that [Draft] IFRS S1 requires the disclosure of information that is too detailed and voluminous to achieve the objective of delivering a *global baseline*. This has the potential to cause

[1] www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/

[2] ibid.

[3] Ibid.

two significant problems:

a. First, it is too early to know whether some of the proposed detail will best meet users' needs. User needs will become clearer over time.
b. Second, detailed disclosure requirements have the potential to 'crowd out' the most important information. There are risks that sustainability reports will become increasingly long and complex, and less accessible, and thus not achieve their intent.

In line with our comments on [Draft] IFRS S2, we suggest a simpler, more principles-based and less prescriptive and detailed approach. We consider that this is more appropriate at this stage. [Draft] IFRS S1 includes explanatory text and examples in the disclosure requirements themselves. Sixteen examples appear in disclosure requirements, in addition to those outlined in the Basis for Conclusions and Guidance.[4] Our view is that removing them and more generally adopting a principles-based approach is needed to create a global baseline for reporting with the potential for individual jurisdictions to then *add* disclosure requirements that fit their unique circumstances. It will also provide opportunities for individual jurisdictions to test different ideas. This, in turn, should facilitate a more rapid understanding of what is and is not international best practice. Given existing concerns with information overload we think it is particularly important for [Draft] IFRS S1 to propose sustainability reporting that is widely acceptable internationally. We consider that starting with a principles-based approach will lead to better outcomes as a better understanding of users' needs develops over time.

We note that taking a more principles-based approach will require further work on how impacts, dependencies and relationships are included in the standard, as elaborated on below.

Involvement and perspectives of indigenous peoples

When it comes to sustainability, indigenous peoples put the long-term, intergenerational wellbeing of nature and people at the forefront. We are acutely aware of this in Aotearoa New Zealand because of our obligations as part of the Crown, under the Treaty of Waitangi (Te Tiriti o Waitangi), which establishes a constitutional relationship between Māori and the Crown. We have found that the perspectives of society, including investors, is shifting to demand that businesses explain their impact on the environment and people. This has some alignment with the values and perspectives that indigenous peoples have long held. In addition to these values and perspectives, indigenous peoples hold significant knowledge given many years of practising these values, including in corporate and capital market contexts.

We consider therefore that it would be a missed opportunity to assume that the TCFD's framework and focus on capital allocation should be copied from climate to sustainability, and to retain the focus on enterprise value. While we acknowledge that the allocation of capital is a critical factor in sustainability, it is a narrow factor in the broader context of the sustainability challenges facing entities. We consider that now is the time to draw on indigenous perspectives to develop a global baseline for sustainability reporting.

In recognition of these issues, the XRB has recently started a project named Ngā pou o te kawa ora, which roughly translates to 'pillars of life'. This XRB-wide project aims, in the first instance, to create a framework for Māori entities to externally report the intergenerational and interconnected impact of the various activities they undertake. Aspirations for the project include growing the Māori

[4] Proposed Paragraphs 17, 20(b), 21(c), 22(c)(i), 26(b)(iii), 37, 43, 44(a) and (b), 49, 65, 68, 75, 76, 78, and 82.

economy and enabling a better reporting framework that incorporates Māori worldviews and knowledge.

The XRB aims for the project be relevant in Aotearoa and credible internationally. We will draw on the experience of Māori entities already reporting on their sustainability stories and leverage the recent success of the He Ara Waiora framework.[5] Whilst Ngā pou o te kawa ora is only in its early stages, the value of indigenous perspectives in articulating the interdependencies of people and planet is immediately clear. Many of the conversations we are having in the context of our project are about the interdependencies of nature and people, not just the interconnectivity of sustainability-related information (as emphasised at paragraph BC28 of [Draft] IFRS S1), or the interconnections between the risks and opportunities faced by an entity.

We also understand that starting with a focus on enterprise value may be seen by many indigenous peoples as an inappropriate starting point. The Māori view on sustainability emphasises the symbiotic regenerative relationship between people and nature. Financial value, or capital, is seen as a way to express and achieve values and principles, not the other way around and certainly not an end in itself.[6] This enables the achievement of more than a return on investment, ensuring a sustainable future for generations to come. From this perspective, and the perspective of other indigenous peoples, it may be more important to prioritise the disclosure of impacts (on people and planet) over that of sustainability-related risks and opportunities and impacts on enterprise value.

We therefore encourage the ISSB to thoroughly involve indigenous peoples in the design work (not just 'consult' with) on this project before proceeding to issue [Draft] IFRS S1. This is due to the more fundamental questions raised by the scope of sustainability (compared to climate) regarding the interconnections of the entity with people and the environment more broadly.

The concept of sustainability

Regarding question 2(b), we note that 'sustainability' itself is not defined in the [Draft] IFRS S1. There is reference to sustainability in another context in paragraph BC30 of [Draft] IFRS S1. However, it does not include a clear definition that can be readily interpreted and consistently applied by entities. This raises potentially serious comparability-related concerns. If sustainability itself is not defined, we would expect to see differing interpretations of what is in scope. For example, some entities may interpret it as being limited to environmental sustainability only. It is also unclear whether the idea of 'sustainability context'[7] is relevant at all, given there is mention of planetary boundaries at BC30.

Those risks have been reduced to an acceptable level in relation to climate change because of the significant work undertaken by TCFD and others on the underlying definitions that are core to the framework itself and elaborated on in guidance. The TCFD identified two major categories of climate-related risks: physical and transition. The TCFD also divided each of those major categories

[5] He Ara Waiora is a framework built on te ao Māori knowledge and perspectives of wellbeing. Waiora speaks to a broad conception of human wellbeing, grounded in water (wai) as the source of life (ora). It recognises that all aspects of waiora are inter-related. Waiora is intergenerational in scope. It was developed alongside Ngā Pūkenga (an expert group of Māori thought leaders). See www.treasury.govt.nz/information-and-services/nz-economy/higher-living-standards/he-ara-waiora

[6] www.theconnective2020.files.wordpress.com/2020/09/tikanga-led-impact-investment-01-moving-closer-to-a-macc84ori-world-view-4.pdf

[7] See a report prepared for the United Nations Research institute for Social Development https://cdn.unrisd.org/assets/library/papers/pdf-files/wp-2022-1-sdpi-synthesis-report-baue-thurm.pdf and other related approaches such as Planetary Accounting, etc.

into subcategories in a comprehensive way.

We consider that it is essential for the ISSB to take a similar approach in relation to sustainability. The full spectrum of sustainability issues that ISSB expects to potentially be covered by sustainability-related standards should be clearly defined and explained.

We also consider that the descriptions of 'sustainability risks and opportunities' in paragraph BC7 of [Draft] IFRS S1 and 'sustainability-related financial information' in paragraphs BC25-BC32 of [Draft] IFRS S1 are of limited value. They explain sustainability by identifying generic topics and using examples but do not provide comprehensive definitions that can be consistently interpreted and applied.

We also consider that:

a. The positioning of the entity's relationships with people, the planet and the economy, as outlined in proposed paragraph 6(c) is the most important aspect of [Draft] IFRS S1. It should appear more prominently rather than as part of a bullet point list. It also needs to be defined more clearly.

b. The reference at proposed paragraph 6(d) to 'knowledge-based assets' in the definition of sustainability-related financial information is unclear and needs more elaboration than is provided by paragraph BC6 of [Draft] IFRS S1.

c. The degree to which 'social sustainability' is considered in scope of [Draft] IFRS S1 is unclear. The draft standard states that there is a need to consider the relationships the entity has 'with people' and 'with its workforce and local communities.' However, the Basis for Conclusions refers to a wider range of social sustainability and responsibility issues. The scope of social issues needs to be defined more clearly and consistently to enable meaningful debate on the issues.

The concept of impacts

We disagree with the conclusion in paragraph BC31 of the Basis for Conclusions on [Draft] IFRS S1 that it is appropriate to distinguish "sustainability-related financial information from broader, multi-stakeholder reporting efforts focused on an entity's contribution to sustainable development." BC31 notes that this:

> …separate emphasis…can be helpful: (a) in allaying concerns that the Foundation has broadened its scope beyond investor-focused disclosure to cover the broadest possible range of sustainability issues; and (b) in confirming that IFRS Sustainability Disclosure Standards are conceptually and practically complementary to—but not a replacement for—reporting on an entity's significant impacts on people the environment and the economy.

In our view, the former concern is not sufficient to outweigh the benefits of a comprehensive baseline that captures impacts. Furthermore:

a. 'impacts' is only used in conjunction with an initial reference to risks and opportunities. Therefore, it reads as having secondary status to risks and opportunities; and

b. impacts are closely related to other concepts such as 'dependencies' and 'relationships', which raises concern that the information won't be clearly disclosed.

We consider that it is important to avoid the situation where entities disclosing against [Draft] IFRS S1 claim to be 'considering' or 'disclosing' their 'sustainability impacts', when in practice they are only considering the impact on their enterprise value. This narrow approach could be misleading for some primary users because it may have the effect of excluding material scientific impacts.

Our view is that impacts, dependencies and relationships should be elevated to the same status as risks and opportunities. We also consider that:

a. there should be explicit requirements to disclose impacts, dependencies and relationships;

b. this information should be disclosed separately from information about risks and opportunities; and

c. these terms should be defined, given their importance and the potential for entities to interpret them differently.

We acknowledge that there is uncertainty about how the Memorandum of Understanding between the ISSB and GRI will work in practice. However, we encourage the two organisations to work together on the topic of impacts specifically.

Question 4 – Core content

As noted above, we have concerns with the two-pillar approach. We also have comments on other proposed disclosures.

Objectives for strategy

We recommend amending the objective to better reflect the content of the underlying section and avoid the view that it merely requires a 'sustainability strategy'.

Use of term 'significant'

We recommend removing reference to 'significant' before risks and opportunities throughout the standard. The concept of materiality should prevail.

Resilience section and resilience analysis

We consider that the section on resilience needs more clarity, particularly the proposed requirement in paragraph 23 of [Draft] IFRS S1 to disclose "…a qualitative and, when applicable, a quantitative analysis of the resilience of its strategy and cash flows in relation to its significant sustainability-related risks, including how the analysis was undertaken and its time horizon."

This lack of clarity arises mainly because resilience is not mentioned in the Basis for Conclusions. Further engagement with existing communities of practice with respect to environmental and sustainability-related scenario analysis would improve this section, such as with the International Institute for Applied Systems Analysis (IIASA)[8], the Economics of Energy Innovation and System Transition (EEIST) research project[9], the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) Technical Support Unit on scenarios and models[10] and the Network for Greening the Financial System (NGFS), given their work on environmental risks and

[8] www.iiasa.ac.at
[9] www.eeist.co.uk
[10] www.pbl.nl/en/work-of-the-ipbes-technical-support-unit-on-scenarios-and-models

opportunities.[11]

We consider that requiring resilience analysis but being permissive as to the methodological options and the purpose of the analysis, is likely to be inadequate and lead to divergence in practice, and a 'tick-box' mentality. A crucial element of scenario analysis under the TCFD framework is its clear connection to the purpose of doing it, which is to better understand the resilience of the business model and strategy. That link will be absent if alternatives to scenario analysis were to be permitted.

In addition, the TCFD issued guidance on how to undertake scenario analysis at entity level and explained the role that the analysis plays in supporting other disclosures. There is an opportunity to ensure that any resilience analysis undertaken under [Draft] IFRS S1 builds on climate-related scenario analysis undertaken in [Draft] IFRS S2, rather than requiring separate analysis of 'resilience' for sustainability. We recommend that the ISSB encourage entities to build in sustainability-related factors into their climate-related scenario analysis over time, and to disclose what they have added. We recommend removing the requirement to do standalone sustainability-related resilience analysis in [Draft] IFRS S1 and to develop further guidance on this topic.

It is also unclear whether 'resilience analysis' is necessarily what primary users are most interested in when it comes to sustainability. For example, an entity can be highly resilient but fundamentally unsustainable due to its impacts on people and the environment. Primary users in that context are likely more interested in how that entity is dealing with sustainability matters, rather than the resilience analysis it has undertaken. We are concerned that entities might use resilience analysis as a proxy for sustainability, when the two are quite different.

The link between Metrics and Targets in [Draft] IFRS S2 and [Draft] IFRS S1

Metrics and Targets is the only section in [Draft] IFRS S2 that also requires a reader to be familiar with the general disclosure standard [Draft] IFRS S1. For all other sections, the general requirements are duplicated in the climate standard. This may be confusing for users as they may easily miss that there is additional information required to be disclosed for climate metrics and targets which are identified in the general standard [Draft] IFRS S1. We recommend that this inconsistency be resolved by either adding a cross-reference or duplicating the material in the climate standard.

The requirement to 'refer to… and consider' the industry-based SASB standards

This requirement is unclear, particularly Paragraph 51 of [Draft] IFRS S1. As with our comment on how the SASB standards are referenced in [Draft] IFRS S2, this needs to be made much clearer.

Whilst we think there is a clearer case that the SASB standards could be used in [Draft] IFRS S1 compared to [Draft] IFRS S2, we are concerned that the SASB standards are being selected by default given the ISSB's relationship with SASB, rather than because these standards are necessarily the best way forward. For example, instead of requiring the consideration of SASB standards as part of, and to supplement information about, the identification of risks and opportunities, what may be of higher value to primary users is disclosure by all entities against a more comprehensive set of indicators relating to industry-neutral sustainability impacts. These disclosure requirements could be drawn from the SASB standards, GRI standards or UNEP FI Impact Management Platform and other

[11] ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf#:~:text=The%20Network%20for%20Greening%20the%20Financial%20System%20%28NGFS%29,the%20financial%20system%20is%20resilient%20to%20these%20risks

sources, which means industry-based requirements could ultimately be reflected very differently in IFRS S1. We are also aware there is strong desire by many to have these impacts relate to entities' contributions towards 'sustainable development', 'the Sustainable Development Goals'[12] and/or 'sustainability context'[13] or 'planetary boundaries.'[14] We recommend more work on industry-based standards in the context of IFRS S1, including the consideration of these types of approaches.

There is no equivalent requirement to disclose transition plans

We consider that paragraph 21 of [Draft] IFRS S1 should be more closely aligned with paragraph 13 in [Draft] IFRS S2 in relation to transition plans.

Paragraph 21(a) in S1 only requires an entity to disclose 'how it is responding to significant sustainability-related risks and opportunities'. However, paragraph 13(a) of S2 goes further by also requiring an entity to disclose 'how it plans to achieve any climate-related targets it has set'. We consider that primary users need information about how an entity plans to achieve sustainability-related targets it has set to make informed investment and business decisions for the same high-level reasons stated in BC71-BC75 for [Draft] IFRS S2. We therefore recommend expanding paragraph 13(a) in [Draft] IFRS S1 to require the disclosure of plan and target-related information.

Question 5—Reporting entity

Question 5(a)

We agree that the sustainability-related information should be required to be provided for the same reporting entity as the related financial statements.

Question 5(b)

We consider that further clarity is needed. While we strongly support a requirement for an entity to consider its exposure to sustainability-related risks and opportunities along its value chain this is an area where entities would benefit from the issue of further guidance.

For example, guidance would be helpful for entities with complex value chains. This could include on how far up and down the value chain they may need to go to identify relevant information, the degree of accuracy and completeness that an entity needs when collecting information from entities it does not control, or the use of estimates when sufficient data is not available. It may also be useful to provide guidance on how entities may begin the process of obtaining information from their value chain and build up a more complete and sophisticated picture over time.

Another example of potentially useful guidance would be how an entity includes information on the sustainability-related risks and opportunities that it is exposed to from its material interests in other entities (such as, associates s and joint ventures) that do not form part of the consolidated group but would form part of its value chain.

We highlight that the XRB Board has proposed a disclosure (under its proposed Risk Management disclosures) which requires an entity to provide information on 'whether any parts of the value chain

[12] Adams, C A, with Druckman, P B, Picot, R C, (2020) Sustainable Development Goal Disclosure (SDGD) Recommendations, published by ACCA, Chartered Accountants ANZ, ICAS, IFAC, IIRC and WBA. ISBN: 978-1-909883-62-8 and https://unctad.org/system/files/official-document/ciiisard97_en.pdf

[13] https://cdn.unrisd.org/assets/library/papers/pdf-files/wp-2022-1-sdpi-synthesis-report-baue-thurm.pdf

[14] https://sustainableearth.biomedcentral.com/articles/10.1186/s42055-018-0004-3

are excluded'. We consider that 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. The proposed disclosure purposely focuses on identifying exclusions, rather than a complete disclosure about value chain stages covered. This is to avoid unnecessarily voluminous disclosures.

Question 5(c)

We disagree with the proposal in paragraph 38 of [Draft] IFRS S1 to require an entity to disclose the related financial statements. Paragraph 38 is unnecessary because paragraph 72 of [Draft] IFRS S1 requires an entity to disclose the information required by IFRS Sustainability Disclosure Standards as part of its general purpose financial reporting. Therefore paragraph 38 should be deleted.

Question 6—Connected information

Question 6(a) and Question 6(b)

We support the concept of connected information and support the intent of the requirements in paragraphs 42 to 44 of [Draft] IFRS S1. However, connectivity should be an underlying principle or qualitative characteristic rather than a disclosure requirement.

In our [Draft] NZ CS 3 (see Table 2: Principles — Presentation), we have included a presentation principle of 'coherence' − presenting disclosures in a way that explains the context and relationships with other disclosures of the entity (including to an entity's financial statements).

We note that proposed paragraphs C31 to C33 of [Draft] IFRS S1 discuss coherence under the understandability qualitative characteristic. We recommend that the proposed paragraph 42 to 44 of [Draft] IFRS S1 be relocated to Appendix C.

Question 8—Materiality

The definition of material information could be clarified in [Draft] IFRS S1. It is not referred to consistently across proposed paragraphs 2, 9, 56 and 57.

We recommend developing guidance for preparers on making materiality judgements in relation to sustainability-related disclosures. This guidance could be along the same vein as the existing IFRS® Practice Statement *Making Materiality Judgements*.

Question 9—Frequency of Reporting

We agree that the sustainability-related disclosures should be provided at the same time as an entity's related financial statements and that sustainability-related disclosures should be for the same reporting period as an entity's financial statements.

Providing the sustainability-related disclosures at the same time as an entity's financial statements ensures primary users are provided with the information they need for their decision making.

Question 11—Comparative information, sources of estimation and outcome uncertainty, and errors

Question 11(a)

We have identified some areas below where in our view the general features from financial reporting have not been adapted appropriately to apply to sustainability-related disclosures.

Paragraph 63 of [Draft] IFRS S1 requires an entity to disclose comparative information in respect of the previous period for all metrics disclosed in the current period. The TCFD, in its 2021 *Guidance on Metrics, Targets, and Transition Plans* recommends that entities provide at least two years of historical data to provide a basis for tracking process. We agree with the TCFD recommendation and recommend that the ISSB amend its proposed requirement to require that an entity disclose at least two years of comparative information for each metric disclosed in the current reporting period.[15] We note proposed paragraph B2 of [Draft] IFRS S1 provides relief from reporting comparatives in the first reporting period. We recommend amending proposed paragraph B2 to allow an entity to report one year of comparatives in the second year of reporting.

Proposed paragraph 63 requires "when such information would be relevant to an understanding of the current period's sustainability-related financial disclosures, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial disclosures". We note this requirement is from IAS 1, however, we have received feedback that, if interpreted literally, this requirement could result in repetitive disclosures. We also found it challenging to come up with an example. In our view, providing comparative narrative and descriptive information would be unnecessary in most circumstances because if the narrative and descriptive information:

a. is unchanged from the previous reporting periods, the disclosure of the current reporting period's information is likely to provide primary users with all the information that is relevant to an understanding of the current reporting period's sustainability-related disclosures; or

b. has changed from the previous reporting periods, we suggest a more appropriate requirement would be for an entity to provide an explanation of those changes and the effect on the current reporting period's sustainability-related disclosures. This is likely to provide any information about the previous reporting period's narrative or descriptive information that is relevant to an understanding of the current reporting period's sustainability-related disclosures.

Proposed paragraph 64 of [Draft] IFRS S1 requires "when providing sustainability-related financial disclosures an entity shall disclose comparative information that reflects updated estimates". We do not agree with this proposal. Changes to estimates in financial statements are recognised prospectively i.e., comparatives are not updated for changes in estimates. The use of reasonable estimates is an essential part of preparing sustainability and climate-related disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained. In our view the proposed requirement in paragraph 64 is impractical., It would create an onerous reporting burden for entities and could even lead to the loss of information to primary users if comparatives are restated for updated estimates.

While proposed paragraph 63 of [Draft] IFRS S1 refers to 'metrics' proposed paragraphs 64(a) and (b) refer to 'amounts', which could be interpreted to mean that if an entity provided an estimate of financial effects as comparative information, it would have to restate those financial effects to reflect updated estimates. We do not believe this is the intended outcome.

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[15] https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

We support including requirements for entities to disclose information about methodologies, assumptions and estimation uncertainty to ensure primary users are provided with information to understand the amounts in an entity's sustainability-related disclosures.

Question 11(b)

We are cognisant that practice and methodologies for sustainability-related disclosures are evolving. In our view, disclosure requirements need to recognise and allow for this, as we want to encourage improvement in disclosures year on year. We agree that an entity should disclose a better measure of a metric reported in the prior year, however, we do not agree that an entity should be required to disclose the revised metric in its comparatives. Rather we recommend the entity be required to provide an explanation of the change including why the replacement metric provides more useful information. This recommendation does not prohibit an entity from restating comparatives if an entity believes this will provide the most decision-useful information for its primary users.

Question 11(c)

Paragraph 80 of [Draft] IFRS S1 states that 'When sustainability-related financial disclosures include financial data and assumptions, such financial data and assumptions shall be consistent with the corresponding financial data and assumptions in the entity's financial statements, to the extent possible'.

We consider that "to the extent possible" should be replaced with "where applicable" or "where reasonably practicable" to avoid having a presumption in favour of using the same assumptions. Much of the analysis underlining sustainability and climate-related disclosures involves having to make different assumptions than those typically used in preparing financial statements. Consistency is often impractical due to the different focus of the analysis and longer time horizons for sustainability reporting.

We agree that entities should be required to be transparent about the underlying assumptions used so primary users are provided with the information that they need for their decision making.

Question 17—Other comments

We have two further comments relating to the definition of value and qualitative characteristics.

Definition of value

There is significant debate internationally regarding the concept of value, its definition and usage.[16] We see this as central to the design of an effective framework on sustainability reporting. There is a clear disconnect between the *value* that is and is not being placed on sustainability matters by reporting entities, and people's *values* with respect to sustainability matters. There are risks that focusing on meeting the *valuation* needs of capital markets risks failing to consider the *values* of those users demanding sustainability information.

We consider that the needs of capital markets are also changing, with some investors increasingly seeking to balance the need to achieve a return on investment with sustainability-related impacts

[16] See for example, Mark Carney's 2020 Reith Lectures. www.downloads.bbc.co.uk/radio4/reith2020/Reith_2020_Lecture_1_transcript.pdf and in a New zealand context, www.mbie.govt.nz/dmsdocument/20250-the-future-of-business-for-aotearoa-new-zealand

and other considerations.

We also recommend closer consideration of alternative definitions of value as a central part of the standard. Indigenous definitions of value are important to consider, and the experiences of those actively bringing their values into capital markets and business directly and making real world investment and business decisions informed by those values.[17] Indigenous concepts of value tend to centre on collective wellbeing in contrast to enterprise value's narrower focus. They arguably better recognise and reflect interdependency and the achievement of outcomes over the long term.[18] We recommend considering these alternative definitions of value and to do so through close engagement with indigenous peoples.

Qualitative characteristics

Appendix C of [Draft] IFRS S1 contains qualitative characteristics (QCs) of useful sustainability-related financial information. These QCs have been adapted from the IASB's *Conceptual Framework for Financial Reporting* (IASB Conceptual Framework). Paragraph 2.22 of the IASB's Conceptual Framework discusses the need for trade-offs when applying the QCs.

We consider that a similar discussion should be included in IFRS S1. This would be helpful where an entity encounters tensions in the application of the QCs. For example, an entity may update a metric to increase comparability, which could then result in disclosures not being made consistently.

Similar issues can also arise within a single QC. For example, disclosures must be verifiable, but assumptions made about future-oriented disclosures often require significant judgement that is difficult to verify. This means that, in practice, all QCs may not be fully achieved and a balance or trade-off between certain of them may be necessary. In our view, an entity should be required to consider the needs of its primary users and the objectives of sustainability-related disclosures when making judgements about trade-offs between the QCs.

[17] We can provide New Zealand examples as desired.

[18] For example, in a New Zealand context see Mika, Jason Paul et al. "Manahau: Toward an Indigenous Māori theory of value." Philosophy of Management (2022): 1-23, available at https://mro.massey.ac.nz/handle/10179/16909.

Appendix 2: Comments on [Draft] IFRS S2 Climate-related Disclosures

1. IFRS S2 Question 1—Objective of the Exposure Draft

1.1. Questions 1(a) and (b)

We largely agree with the objective as stated in paragraph 1 but have one suggested change. We consider that the reference in paragraph 1(b) to the entity's "strategy for managing its significant climate-related risks and opportunities" should be broadened. We agree with the TCFD that the Strategy section should also provide information about the impact *of* climate-related risks and opportunities *on* the entity's strategy. We recommend a change to paragraph 1(b) to reflect the wording used by the TCFD on page 20 of its Final Report of June 2017.

An equivalent change should also be made to paragraph 7.

1.2. Question 1(c)

We do not believe the proposed disclosures meet the objectives in paragraph 1, primarily because they are too prescriptive. [Draft] IFRS S2 includes additional requirements over and above the TCFD and explanatory text and examples in the disclosure requirements themselves. Much of this material appears to be drawn from TCFD guidance. We consider that in many cases guidance is a more appropriate place for the information. For example, 20 examples appear in disclosure requirements and 6 examples appear within defined terms, in addition to those outlined in the Basis for Conclusions and Guidance.[19] We recommend removing this text from disclosure requirements for relevance, simplicity and ease of use reasons.

The standard needs to be workable for a diverse range of reporting entities including corporates, banks, insurers, asset managers and asset owners. Our experience, in consulting on draft climate standards in New Zealand, is that taking a more principles-based approach is needed to reflect the diverse circumstances of reporting entities. That said, we recognise the value of explanatory material. The ISSB could consider issuing the material we recommend removing as non-binding guidance.

2. IFRS S2 Question 2—Governance

We broadly agree with the proposed disclosure requirements for governance processes. We note the close adherence to the TCFD governance recommendations. We support the addition to the TCFD recommendations of the proposed disclosure in paragraph 5(c) on skills and competencies. We received feedback from our consultation that primary users want this information disclosed.

2.1. Other comments on Governance disclosures

We do not consider that the disclosure proposed in paragraph 5(b) is useful in itself. If it is to be retained then it is also essential to require the disclosure of information about whether the entity's terms of reference, board mandates and other related policies lead to action. We do not have a strong preference either way.

We did not understand what is meant by 'including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required' in proposed paragraph 5(e). We suggest either

[19] Proposed Paragraphs 6, 12(b), 13(a)(i)(2), 13(a)(i)(3), 13(b)(iii)(4), 14(c)(i), 14(d), 15(b)(i)(7), 15(b)(ii)(1), 15(b)(ii)(5), 17(b)(ii), 17(b)(iii), 18, 21(a)(iv), 21(a)(vi)(4), 21(f)(ii), 23(d), and defined terms 'Absolute target', 'Climate-related risks and opportunities', 'Intensity target', 'Scope 1 emissions', and 'Scope 3 emissions'.

expressing this idea more clearly or deleting it.

3. IFRS S2 Question 3—Identification of climate-related risks and opportunities

3.1. Question 3(a)

We partially agree with the proposed requirements. Paragraph 9(a) proposes the disclosure of "significant" climate-related risks and opportunities. It is unclear what "significant" is intended to mean because it is not explained in paragraphs 10-12 or defined in Appendix A. Paragraph BC40 of [Draft] IFRS S1 states that the introduction of the term significant is 'intended to ease application for preparers.' We do not agree with this reasoning. Our view is that the interests of primary users of climate-related (sustainability-related) disclosures should prevail and that their interests are best protected when all material information is disclosed.

We recommend removing all references to "significant" throughout both [Draft] IFRS S2 and [Draft] IFRS S1. Instead, we recommend focusing on the fundamental concept of materiality – whether providing or withholding the information is likely to influence primary users' decision making. We recommend developing guidance for preparers on making materiality judgements in relation to climate and sustainability-related disclosures. This guidance could be along the same vein as the existing IFRS® Practice Statement *Making Materiality Judgements*.

3.2. *Other comments on adaptation*

We support the intent behind the stronger reflection of climate change adaptation throughout the draft standard, compared to the prototype documents published by the TRWG in November 2021. However, it will benefit preparers and users alike to consolidate adaptation information under a single heading, not under different headings as is proposed in the draft standard (e.g. paragraphs 13(a)(i)(2), (3), 15(a)(iii) and 20(d)).

We consider that this information would be clearer if it was disclosed as part of a transition plan. This gives entities more ability to link their adaptation actions to the risks and opportunities that the entity is adapting to. For example, 13(a)(i)(2) and (3) refer to direct and indirect adaptation efforts but there is no clear link to identified risks or opportunities. We suggest that guidance would be most appropriate for describing how adaptation-related information can most clearly be linked to climate-related risks and opportunities in the context of a broader transition plan.

4. IFRS S2 Question 4—Concentrations of climate-related risks and opportunities in an entity's value chain

4.1. Question 4(a)

We strongly support encouraging broad analysis of climate-related risks and opportunities. However, there is a considerable overlap between the disclosures proposed in paragraph 12 and those in paragraph 9. We consider that good climate-related risk and opportunity identification and analysis under proposed paragraph 9 would address value chain and related risk and opportunity concentration issues. Therefore, we suggest:

a. deleting proposed paragraph 12; and

b. providing guidance material on the proposed paragraph 9 disclosures, including guidance on value chain and risk and opportunity concentration.

5. IFRS S2 Question 5—Transition plans and carbon offsets

5.1. Questions 5(a), (c) and (d)

We have three main points to make in response to Q.5. First, we consider that the proposed disclosure requirements for transition plans should be made more explicit.

A reporting entity's transition plan will only be credible if it describes the specific actions the entity is taking and will take to meet its climate-related targets, such as GHG emissions reduction targets. A strong theme in our consultation in New Zealand was that primary users want this information. Information on offsets in the Strategy section risks obscuring what primary users are seeking, which is more fundamental information about the entity's long term strategic direction.[20]

Secondly, proposed paragraph 13(b)(iii) is supported by an assertion in paragraph BC79 of [Draft] IFRS S2, that "…carbon offsets can play an important role in the transition plans of entities". We disagree. It is clear from diverse sources, as detailed in **Appendix 2**, that offsets cannot be an important part of a credible, long-term transition plan for individual entities.

We agree that information about offsets should be disclosed if it is material. Our view is that it is more appropriately addressed under the GHG emissions section of Metrics and Targets disclosures.

Thirdly, regarding the reference to adaptation in 13(a)(i)(3), though guidance on adaptation planning was not included in its document, the TCFD encouraged other frameworks and standard setters to consider developing guidance on designing and disclosing adaptation plans. Rather than emphasising adaptation plans, ISSB appears to be preferring to seek disclosure on adaptation actions.

We make the following recommendations to improve and clarify the approach to adaptation:

a. Clarifying to stakeholders that the ISSB is not taking up the TCFD's challenge to develop guidance on adaptation plans but rather is folding adaptation into the definition of a transition plan. Explicit reference needs to be made regarding the fact that adaptation to climate change is considered part of a transition plan, as this may not be the market understanding following the TCFD's recommendations and voluntary practice. We suggest having more regard for the existing guidance on adaptation plans at entity level, such as *ISO 104090:2019 Adaptation to climate change - Principles, requirements and guidelines* to help ensure that what is required to adapt to climate change is not mischaracterised or underrepresented.
b. Amend the transition plan definition to include specific reference to the transition towards a 'low-emissions, climate resilient' future/economy, i.e. covering adaptation (and again removing reference to carbon). This is consistent with typical references to 'the transition' more broadly. This is a change that should also be made to [Draft] IFRS S1 more generally and all references made to the transition, including the definition of transition risks which already makes reference to adaptation.

6. IFRS S2 Question 6—Current and anticipated effects

[20] The TCFD found in its 2021 Status Report that '…users expressed that it is currently difficult to gauge how committed organizations are to addressing climate risks and opportunities, and anticipate evolving regulations. A recent Climate Action 100+ (CA100+) report highlighted this information gap, showing that only six out of 159 organizations surveyed met partial assessment criteria for capital allocation alignment… Given concerns about achievability of commitments, many users interviewed said that more visibility on organizations' planned actions, through expenditure and capital investment, would allow them to judge the reliability of these commitments and evaluate the benefits of the targeted initiatives.' See assets.bbhub.io/company/sites/60/2022/03/GPP_TCFD_Status_Report_2021_Book_v17.pdf at p71.

6.1. Question 6(a)

We agree with this proposal and consider that the ISSB has balanced the burden on preparers with the information needs of users very well.

6.2. Question 6(b) and 6(c)

We consider that changes should be made to paragraph 14 to clearly distinguish between current and anticipated impacts. We consulted on very similar wording recently given the desire of stakeholders in New Zealand to align with [Draft] IFRS S2. We received feedback that if there is a current effect of a risk then it is no longer a risk but an effect, impact or consequence. We suggest the following, in line with changes to the draft Aotearoa New Zealand climate standard we are making in response to this feedback:

a. Separating the proposed disclosures of current and anticipated effects to further help preparers understand the difference in timeframes involved with each; and

b. Separating the proposed disclosures of impacts (effects) and financial impacts (financial effects) to avoid the situation where entities skip impacts and jump too quickly to their financial implications and lose the connection to physical or transition impacts.

We have achieved this by having four disclosures covering:

a. **Current impacts**: The entity's current physical and transition impacts (note in particular the lack of reference to risks/opportunities);

b. **Current financial impacts**: The entity's current physical and transition financial impacts (note in particular the lack of reference to risks/opportunities);

c. **Anticipated impacts**: The entity's anticipated impacts of climate-related risks and opportunities reasonably expected by the entity; and

d. **Anticipated financial impacts**: The entity's anticipated financial impacts of climate-related risks and opportunities reasonably expected by the entity.

We also suggest removing proposed disclosure 14(b). The focus on "…the next financial year" is very short in relation to the typical timeframes involved with climate-related risks. We consider that in most instances, the financial impacts of an entity's climate-related risks and opportunities over the next year will be subject to too much uncertainty. Therefore, we consider the information disclosed will not be meaningful in most instances.

The focus on the next financial year also takes away the ability of entities to set their own time horizons to analyse their risks and opportunities. It would also require substantial additional standalone analysis.

We also consider this disclosure to be somewhat duplicative with the equivalent disclosure in Paragraph 125 of IAS 1. We therefore recommend that the ISSB rely on the existing requirements in IAS 1 and the IASB's existing guidance on the effects of climate-related matters on financial statements[21] which encourages entities to consider Paragraph 125, among others, in preparing financial statements. Further guidance could also be developed by the IASB on this point.

[21] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf

We suggest removing “given its strategy to address significant climate-related risks and opportunities” in paragraphs 14(c) and (d) for the following reasons:

a. This point is better raised and addressed in guidance, not in [Draft] IFRS S2. We plan to note in guidance related to our proposed disclosure of ‘anticipated financial impacts’ that entities can cross-refer to their own transition plans and their views on how this may mitigate financial impacts.

b. The words “given its strategy to address…” in proposed paragraph 14(c) are confusing because it mirrors the role of transition plans. If retained, the disclosure should refer to transition plans.

c. It appears that the word ‘given’ means that entities may disclose their total financial impacts in a way that includes the mitigating impact of an entity’s transition plan. It assumes, first that transition plans will be effective at mitigating or counterbalancing the financial impacts on an entity, and second, that those actions can be quantified meaningfully. We consider that the judgement as to whether an anticipated financial impact can be avoided through transition planning is better made by primary users than by reporting entities. Therefore, this information should be disaggregated so primary users can understand it. If not, the information could mask the financial impact if an entity’s transition plan is not effective or not actioned.

d. This disclosure may encourage overconfidence in the degree to which entities can avoid financial impacts arising due to climate change through its transition plans. Some financial impacts may be unavoidable due to the impacts of climate change or be largely dependent on the actions of others.

e. We have heard from entities in New Zealand reporting their anticipated financial impacts that the disclosure (in the absence of the impact of its own transition plan) helps to ensure the board is aware of and actively managing climate-related risks and opportunities, and that this flows through to further prioritisation of steps to mitigate risks.

The discussion above is based on the assumption that the purpose of the phrase “given its strategy to address significant climate-related risks and opportunities” is to capture the counterbalancing impact of an entity’s transition plan on its financial impacts. If, however, the intention is to simply capture the financial impacts associated with implementing the transition plan itself, then we would suggest changing “given” to “including”.

We also recommend removing or modifying the examples in paragraphs 14(c) and (d). Only proposed paragraph 14(d) refers to matters typically in scope of climate-related risks and opportunities (physical damage to assets from climate events). The current drafting could imply that the only financial impacts in scope of the requirement are those associated with actions the entity is taking in response to climate change, and not the financial impacts associated with the entity’s climate-related risks and opportunities disclosed earlier in the strategy section. The TCFD’s Figure F2 provides a good balance and its comment that ‘Financial impact analysis should focus on the exposure and potential financial impact if no action is taken and the financial implications of managing risks and maximizing opportunities in the context of an organization’s overall business strategy and environment’.[22]

[22] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf, at p46.

We also recommend removing the requirement to disclose 'planned sources of funding' proposed paragraph 14(c)(ii)). This disclosure goes beyond current expectations for financial reporting. It is quite onerous to expect entities to provide financial information about planned sources of funding to implement the strategy. It also appears likely to be commercially sensitive.

7. IFRS S2 Question 7—Climate resilience

7.1. Question 7(a)

We do not agree that the items listed in paragraph 15(a) reflect what primary users need to understand about the climate resilience of an entity's strategy. We consider that the proposed strategy objective in paragraph 7 is too narrow. We recommend amending the objective to ensure it is more reflective of the entity's proposals. It should also emphasise that the focus includes the impact of climate change on the business model and strategy, rather than on the 'strategy for addressing' climate-related risks and opportunities. This implies that an entity can or should have a separate 'climate strategy', whilst potentially continuing to try to give effect to its overall business strategy. The intent of the TCFD was to ensure entities consider how climate will impact its ability to deliver on its overall business strategy and make any consequential changes to its strategy. We suggest considering our proposed strategy objective in NZ CS 1 at Paragraph 9, which is:

> '*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.*'

Proposed disclosure 15(a) requires the disclosure of "the *results* of the analysis of climate resilience". This reference to results tends to suggest an interpretation of scenario analysis as 'modelling' results and outputs. We do not support this approach. As noted by the TCFD, modelling is one way to quantify scenarios, but there are others:

> *Scenarios may be "quantified" through the use of descriptive statistics or through the use of models. Models are a simplified representation of reality that attempt to explain assumption-effect relationships between key drivers and outcomes in a particular system (e.g., climate system, economic system, ecological system)... Climate-related models can provide useful insights regarding uncertainties and the larger potential climate, socioeconomic, and ecological futures that might develop (context-setting), <u>but will have limitations and caveats if they are used at more granular levels (e.g., sector or company levels)</u>. In particular, models may attempt to be "too precise" and come with layers of assumptions and limitations. Do not rush to quantification. The first step is to understand the impacts of climate-related risks and opportunities from a qualitative perspective. Rushing to quantify a scenario may result in developing complex quantitative scenarios (mostly with external assistance), before the qualitative narrative, which should serve as a robust framework and communication tool, has been thought through and developed. Quantification should proceed in steps; for example, by starting with a qualitative analysis followed by quantification of impacts through "orders of magnitude" or directional indications. More detailed quantitative approaches and models may be developed later once these impacts are well understood and the necessary data has been obtained.* [23]

Even if all entities were modelling to quantify their scenarios, it is not clear that primary users consider the 'results' to be relevant. As noted by the TCFD, there is reluctance from preparers to

[23] assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf at p30.

disclose them.[24] We consider that over and above the more general functions of scenario analysis outlined by the TCFD above, there tend to be two outputs of scenario analysis. Firstly, the identification of climate-related risks and opportunities, their impacts and to a greater or lesser extent, financial impacts (which are required to be disclosed in [Draft] IFRS S2). Secondly, a better understanding among those that have undertaken the scenario analysis about the resilience of its business model and strategy. This itself is difficult to disclose and is quite different to the results of a model.

The question that arises is, what is relevant about the results, given the other disclosures the entity is making about its risks and opportunities, financial effects and changes to the business model and strategy? Modelling outputs do appear in some voluntary TCFD disclosures. However, they tend to be used selectively as part of a narrative to emphasise certain findings or points the entity is trying to make, rather than providing the results to primary users.

More specifically, 15(a)(i) appears to be difficult to comply with without disclosing commercially sensitive information. 15(a)(ii) appears to somewhat misinterpret the nature of scenario analysis and climate change, namely the inherent uncertainty involved when looking forward over long time horizons. It is therefore unclear what would be disclosed against 15(a)(ii). 15(a)(iii) also appears to require disclosure of potentially commercially sensitive information.

These disclosures risk overwhelming entities before they start developing credible transition plans and may force them to confront difficult questions regarding disclosure of commercially sensitive information. This can be avoided. Overall, we consider the focus of primary users is more squarely on the quality of the scenario analysis undertaken and the quality of the subsequent transition plan, rather than this detailed information that sits in between, and which may ultimately act as a barrier to credible transition planning.

We suggest removing disclosure 15(a) and relying on the disclosures on climate-related risks and opportunities (Paragraph 9-12), financial effects (Paragraph 14) and transition plans (Paragraph 13).

We also recommend amending the climate resilience definition. The definition includes reference to the 'capacity of an entity to adjust to uncertainty related to climate change.' Resilience in this context is more about resilience to climate change rather than the uncertainty associated with climate change. The definition would benefit from more closely drawing on existing definitions of resilience while ensuring that it is workable at entity level. We note some definitions are designed to apply at a much broader level of entire socio-economic systems rather than at entity level in the context of thinking about its strategy.

Question 7(b)

We disagree with the proposal to permit alternatives to scenario analysis. The alternatives are not suitable for strategic resilience purposes. Nor will they meet users' information needs.

Single-point estimates do not provide a suitable basis for analysing the resilience of the entity's strategy, particularly given that there are many plausible climate futures.

Sensitivity analysis is sometimes involved in scenario analysis but is unlikely to be sufficient because

[24] TCFD note at p63 that 'Interviewees noted that their organizations were more likely to conduct scenario analyses than publicly disclose the output of such analyses.' www.assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Status_Report.pdf#page=14&zoom=100,264,65

it is not well suited to exploration and creativity. As noted by the TCFD:

> *In the context of strategic management, scenarios serve two broad functions... First, they promote strategic thinking — the creative, intuitive, and innovative thinking about divergent futures that may affect a company. Second, scenarios provide a systematic and logical process to identify various strategy options in the light of these futures, and aid in the decision-making process to select among options.*[25]

Permitting alternatives to scenario analysis also raises consistency and comparability issues for primary users. Comparability is already challenging in relation to scenario analysis. Permitting alternatives to scenario analysis is likely to unnecessarily add to those challenges.

An effective global baseline needs to set entities on a consistent path, rather than allowing for significant divergence from the outset. We suggest tying the purpose of resilience analysis more closely to the resilience analysis itself to avoid the situation where scenario analysis (or other approaches) is being undertaken for different purposes.

We also disagree with the statement in paragraph BC95 that "…at this time it [is] more appropriate to limit climate-related scenario analysis to those able to do it". The issues are not about whether entities can or cannot carry out scenario analysis. They are more about how well individual entities carry out that analysis. We consider that the quality is likely to improve over time through learning-by-doing.

Furthermore, we consider that there are better options for responding to concerns about compliance costs and/or data access. These include encouraging sectoral scenario analysis, permitting a longer lead-in time and providing greater ability to take a more qualitative approach to scenario analysis.

We also consider that jurisdictions can most appropriately deal with the general issue of phasing in scenario analysis. This is the approach we are currently taking in New Zealand: sectoral collaboration is strong and growing. Also see our comment in response to Question 14, relating to effective date.

We also recommend that more explicit reference to temperature outcomes should be included in disclosure 15(b). In line with the emphasis of the TCFD in its most recent guidance, we propose to require, at a minimum, use of a 1.5^{0}C temperature outcome scenario, and a 3^{0}C or greater temperature outcome scenario. We consider this to be in line with emerging best practice in this area and will improve consistency and comparability. .

In summary, we recommend removing disclosure 15(b)(ii) and the references in paragraph 15 to 'those unable to do' scenario analysis. All entities can, and should, do scenario analysis. They also can, and should, start qualitatively and build in quantification over time.

7.2. Question 7(c)

We agree with many of the proposed disclosures. Disclosing the assumptions will help enable primary users to understand what plausible but challenging climate scenarios the entity has considered, consistent with TCFD guidance on scenario analysis.

We recommend removing paragraph 15(b)(i)(2) because it could encourage use of separate transition and physical risk scenarios, which is undesirable. Entities should instead be encouraged to use integrated scenarios (covering physical and transition risks and opportunities). This is important because all plausible futures involve some combination of physical and transition risk. Integrated

[25] assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf at p34.

scenarios will better enable strategic decision-making.

We also recommend removing the first part of the sentence in Paragraph 15(b)(i)(8) before 'policy assumptions…'. The assumptions being referred to in this disclosure requirement are not specific enough to be 'about the way the transition to a lower-carbon economy will affect the entity'.

7.3. Question 7(d)

We disagree. See our reasoning above in relation to question 7(b).

8. IFRS S2 Question 8—Risk Management

We do not agree with the proposed disclosure requirements for risk management.

8.1. Climate-related opportunities

We note the decision to extend the remit of disclosures about risk management beyond the TCFD recommendations, which currently only focus on climate-related risks, to also include climate-related opportunities. Paragraph BC101 of the Basis for Conclusions on [Draft] IFRS S1 explains that the proposal reflects both the view that risks and opportunities can relate to or result from the same source of uncertainty, as well as the evolution of practice in risk management, which increasingly includes opportunities in processes for identification, assessment, prioritisation and response.

While we agree that risk management processes may facilitate the identification of climate-related opportunities, we have not seen sufficient evidence that the identification of climate-related opportunities is integrated into current risk management processes. When we look at the proposed disclosures in paragraph 17 of [Draft] IFRS S2, they seem to signal that the processes to identify climate-related opportunities are separate from those risk management processes used to identify climate-related risks, i.e., the existence of two processes not one.

The Strategy section of [Draft] IFRS S2 requires the disclosure of climate-related opportunities. We have not seen sufficient evidence that requiring disclosure of the processes to identify climate-related opportunities is appropriate at this time. There is no demand from users for this information, to our knowledge. Our recommendation would be to align with the TCFD and focus the risk management disclosures on the processes to identify, assess and manage climate-related risks.

We recommend the removal of proposed paragraphs 17(a)(ii), 17(c), 17(d)(ii) and 17(f).

We also note that the proposed disclosure requirement in paragraph 17(a)(ii) is duplicated in paragraph 17(c).

8.2. Other risk management disclosures

Paragraph 17(b)(iv) is additional to the TCFD recommendations, as it requires an entity to disclose whether it has changed the (risk management) processes used compared to the prior reporting period. We recommend removing this disclosure and replacing it with a general disclosure requirement in draft IFRS S1 along the lines of "If an entity changes what it discloses or how it presents its information, it must provide an explanation of those changes and of the effect on the current reporting period's sustainability-related financial disclosures".

We also recommend deleting the requirement to disclose the related policies under paragraph 17(d). In our view the focus should be more on the actual processes undertaken, rather than

whether or not policies are in place.

9. IFRS S2 Question 9—Cross-industry metric categories and greenhouse gas emissions

9.1. Question 9 (a)

We agree with including the seven proposed cross-industry metric categories.

9.2. Question 9 (c)

We do not agree that entities should be required to only use the GHG Protocol to define and measure Scope 1, Scope 2 and Scope 3 emissions. Our view is that entities should have the flexibility to choose a recognised methodology to apply (one of which is the GHG Protocol).

Including a requirement in [Draft] IFRS S2 that an entity must use the GHG Protocol to define and measure Scope 1, 2 and 3 emissions can cause issues at a jurisdictional level. For example, Aotearoa New Zealand Climate Standards are secondary legislation. This means that the GHG Protocol would be incorporated by reference. While possible, this is inconsistent with some important law-making principles. Challenges of incorporation by reference into secondary legislation include:

a. Uncertainty about whether the 'old' or 'new' version would apply if the GHG Protocol were to be changed, and the standard not updated.
b. The standard would need to be specific as to which exact standards and parts of the guidance would be included as the measurement criteria (GHG Protocol Corporate Accounting and Reporting Standard, Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Scope 2 guidance).
c. The need to also accommodate other related measurement standards such as PCAF for financed emissions, and those standards that are in development (for example, the new PCAF standard for the insurance sector).
d. In New Zealand about 50% of entities that measure and report their GHG emissions do so using the ISO Standard 14064:2018 – Greenhouse gases. We believe that the outcome of reporting using this standard is close to the results of using the GHG Protocol. For this reason, while we've required entities to report emissions by Scope 1, 2 & 3 we have allowed the choice of methodology, noting that the standard used must be disclosed.
e. Our exposure draft proposes that an entity disclose the recognised standard or standard(s) that its GHG emissions have been measured in accordance with. We have incorporated additional requirements relating to GHG emissions disclosures in our overarching methodologies, assumptions and uncertainties section (NZ CS 3).

9.3. Question 9 (d)

We agree with the proposals that an entity be required to provide an aggregation of all seven greenhouse gases for Scope 1, 2 and 3— expressed in CO_2 equivalent.

9.4. Question 9 (e)

We disagree. We understand the objective underlying the requirement to separately disclose scope 1 and 2 emissions of the consolidated group and joint ventures and subsidiaries to facilitate greater comparability. However, the reasons for differences in reported GHG emissions between entities are more complex than just legal group structures. For example:

a. Comparisons are not easily made between entities that choose to structure their businesses such that they outsource parts of their operations. A company with more in-house operations will have more Scope 1 and 2 emissions than a company that outsources these activities.

b. Companies with significant leased assets can have GHG footprints that are materially different depending upon which consolidation approach they choose. For example, a property company may include tenant emissions in scope 3 if it uses the operational control approach or scope 1 if it uses the financial control approach (as pointed out under the GHG Protocol).

We also note that:

a. The proposal only relates to separately disclosing the emissions of joint ventures, associates and unconsolidated subsidiaries. However, under the GHG Protocol, subsidiaries that are consolidated but not wholly owned could be accounted for differently depending upon whether an entity uses a control approach or an equity share approach. Under an equity share consolidation approach an entity would only report its equity share of emissions, with a control approach an entity either accounts for 100% or nothing (until category 15 – investments).

b. There could be technical complexities in asserting compliance with the GHG Protocol for the standalone emissions of the group excluding emissions of joint ventures and associates.

In terms of what information is most useful for the user, there are the following considerations:

a. Mandating a consolidation approach would provide improved comparability across different group structures and for leased assets. However, we do not recommend this approach as we believe entities choose consolidation approaches for many reasons. We agree with the ISSB requirement to disclose the consolidation approach.

b. The inclusion of full value chain emissions goes some way to ensuring that, overall, the whole footprint of each entity is comparable, as including scope 3 categories ensures entities with and without outsourced operations present the same emissions just in different categories.

c. Requiring entities to present a breakdown of emissions information in the way that emissions are considered, reported and managed by the entity, perhaps similar to the segment reporting approach in financial reporting and consistent with the facilities concept in the GHG Protocol. This approach would see entities present GHG information in the way it is internally managed. This is likely to help the user more fully understand concentrations of GHG exposure and how metrics, risks and strategies relate to these concentrations.

9.5. Question 9(f)

We agree with the inclusion of gross scope 3 emissions as a cross-industry metric category. We do not believe there will be many (if any) entities who can claim scope 3 emissions are not material. We also note that under the GHG Protocol Corporate Standard the requirement to measure and report scope 3 emissions is optional.

However, we do not agree with the requirement to provide an intensity measure for each scope. We do not believe this is common practice or useful for comparability purposes as businesses within the

same sector that run their business differently (in-sourcing versus out-sourcing) will have different emissions intensities for the same scope. See our notes on how the consolidation approach can affect which scope emissions are recorded in. There does not appear to be a reference to this decision in the basis for conclusions, so we are not sure what is intended with this requirement.

10. IFRS S2 Question 10—Targets

10.1. Question 10(a)

We broadly agree with the proposed disclosures about climate-related targets; however, we provide some comments on the individual proposed requirements, and the structure of the section, below.

The targets section refers to both climate-related emissions reduction targets and climate-related targets beyond emissions reduction targets.[26] We suggest a review is required to ensure that this section is clear in relation to the latter targets. It appears that paragraph 23 of [Draft] IFRS S2 will be difficult to disclose against for preparers considering non emissions reduction targets, because the requirements do not appear to be applicable for all targets. We believe it would be clearer to preparers if those disclosures which are specific to GHG emissions were identified as such. Disclosures c) and e) and f) appear to be specific to GHG emissions targets and not applicable to non-emissions reduction targets. It is unclear how entities would describe a remuneration or internal emissions prices target using this description. Our suggestion would be to remove disclosures c), e) and f) and consider moving them to guidance material.

We do not think that the definition of the 'latest international agreement on climate change' in Appendix A is sufficiently clear. This term is used in three places, including in connection with scenario analysis. We appreciate that the intention of using this term is to 'future-proof' the standard, however we suggest removing it.

The Paris Agreement includes long-term temperature goals 'to limit global warming to well below 2^0C above pre-industrial levels, and to pursue efforts to limit warming to 1.5^0C above pre-industrial levels.' It is unclear, therefore, whether a requirement to carry out scenario analysis in accordance with the Paris Agreement would require the use of a 1.5^0C scenario, a 2^0C scenario, or would permit either scenario to be used. This outcome would be inconsistent with consistency and comparability principles.

Our view is that a 1.5^0C scenario should be required. A 1.5^0C scenario is uncontroversial because to do scenario analysis well the scenarios need to be challenging. A 1.5^0C scenario more clearly illustrates transition risks and opportunities for entities than 2^0C and is, therefore, more fit for purpose.

In relation to targets, we consider that the requirement in paragraph 23(e) of [Draft] IFRS S2 should be amended. This is only relevant to emissions reduction targets, not other climate-related targets and should be changed to have more generic application.

It is not uncommon for conflation of goals in the Paris Agreement with global emissions reduction pathways and more specific national level targets to reduce greenhouse gas emissions and associated domestic and sectoral emissions reduction pathways / strategies to achieve those targets. Paragraph BC121 of the Basis for Conclusions on [Draft] IFRS S2 notes that 'an entity is required to reference the targets set out in the Paris Agreement.' There are no targets in the Paris Agreement,

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[26] assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf Examples of non GHG emissions reduction targets provided by the TCFD on p33.

only goals for achieving temperature outcomes. If the intent is to disclose alignment with global emissions reduction pathways (which could be referred to as 'in line with' or 'aligned with' a '1.5 degree global emissions reduction pathway' or similar), this would be more preferable than the current reference to both 'compares with' and 'the latest international agreement'.

11. IFRS S2 Question 11—Industry-based requirements

We do not consider the inclusion of the SASB Standards in [Draft] IFRS S2 to be appropriate.

No analysis appears to have been undertaken to determine their fitness for purpose in the context of climate-related risk and opportunity analysis and disclosure. What has been done appears to have been focused on jurisdictional applicability (centred largely on the United States) and metrics that have been highlighted by stakeholders as problematic following voluntary adoption.[27] Whilst we would support the idea that the SASB Standards could be used by entities for identifying climate-related risks and opportunities, this is very different to them being included in a global baseline. We do not believe they should be, as entities may determine that other risk management processes are preferable. We consider it is not yet established that the marginal value for primary users would be worth the additional costs for preparers.

We consider the inclusion of the industry-based metrics needs further work. We see the following problems with the current proposals:

a. It is unclear what industry-specific metrics need to be disclosed by any given entity. The references to 'refer to and consider the applicability of… the industry-based metrics' [proposed paragraph 11 of [Draft] IFRS S2], a 'subset' [paragraph BC189 of the Basis for Conclusions of [Draft] IFRS S2] and a 'non-comprehensive selection of industry-based metrics is associated with the disclosure topics contained in Appendix B', [paragraph BC123 of the Basis for Conclusions of [Draft] IFRS S2] and the note that 'disclosures would only be required on the aspects of these matters that were identified as being most closely related to climate change' [BC52 of the Basis for Conclusions of [Draft] IFRS S2] all raise questions about scope. Neither the basis for conclusions nor the illustrative guidance explain these further.

b. Based on our review of the metrics in Appendix B, the link between the metrics and climate change is likely to be very hard to identify in many cases, raising doubt as to whether the metric itself is material and related to climate change, or only as an input for further analysis or used alongside other information that is more clearly climate related.

c. The Basis for Conclusions on [Draft] IFRS S2 points out the usefulness of industry-specific metrics in identifying climate-related risks and opportunities. However, this is very different from imposing a requirement to use a specific set of metrics.

d. It assumes quite a high degree of existing knowledge of applying SASB Standards. In our context, few entities trying to understand and apply NZ CS 1 have prior experience with TCFD or SASB standards.

e. The relationship to 'disclosure topics' [Paragraph 11 of [Draft] IFRS S2] is also unclear. We consider that all entities with no prior experience with SASB standards will find this concept difficult to understand and may require further application guidance.

f. Given the proposed requirement to disclose information relevant to cross-industry metric

[27] www.sasb.org/standards/process/active-projects/standards-internationalization-advancement/

categories, further explanation is needed as to how to practically use and disclose these industry-specific metrics and any differences with the cross-industry metric categories. ISSB has largely just used examples and noted the decisions it has made, rather than provided explanations. We believe explanation to support the examples will be necessary to secure the required level of international support for this approach.

g. The relationship to other disclosures appears to be problematic. For example, what are entities to do when it comes to categorising climate-related risks and opportunities as transition or physical risks as proposed in paragraph 9(c) of [Draft] IFRS S2 when it comes to the presentation of disclosure topics required by Appendix B? Many are misaligned with this categorisation or fall outside it altogether.

h. The industry classifications appear to be based on research conducted by SASB in relation to the United States, and therefore are unlikely to be appropriate for international application without considerable further work.

We recommend removing the industry-based requirements from [Draft] IFRS S2. We recommend focusing on their role in relation to the proposed sustainability standard. In relation to climate change, we suggest instead developing further guidance on their use (but not disclosure) and undertaking targeted coordination and separate engagement with relevant industries (including primary users) at a global level to drive convergence regarding which specific climate-related cross-industry metrics are most useful for use and disclosure.

12. IFRS S2 Question 12—Costs, benefits and likely effects

12.1. Question 12(a)

The key issue here is whether compliance costs are proportionate to the benefits that (a) primary users obtain from making higher-quality investment decisions, and (b) reporting entities obtain from improving their management of climate-related risks and opportunities.

New Zealand officials included an assessment of the costs and benefits in the regulatory impact statement that was published before the New Zealand Parliament enacted legislation introducing standards-based mandatory climate-related reporting.[28] Most of the costs and benefits were and still are very difficult to quantify. Entities subject to the mandatory requirements made diverse comments about compliance costs. Some entities that had already started publishing TCFD reports voluntarily stated that compliance costs were low because it was in the interests of their businesses to incur the costs and they were already starting to do so. Other entities that had not yet started thinking about climate-related risks and opportunities indicated higher compliance costs.

New Zealand officials concluded that imposing standards-based climate-related reporting implied imposing costs **earlier** than many entities would otherwise have started incurring them. They also concluded that standards-based climate-related reporting would **have lower costs** compared to mandatory climate-related reporting with no standards.

Based on this experience, we consider that there are significant risks of submitters overstating compliance costs. Many costs will be incurred with or without introducing standards because

[28] See the Cabinet paper introducing the policy for mandatory climate-related disclosures standards https://environment.govt.nz/assets/publications/Cabinet-papers-briefings-and-minutes/cabinet-paper-climate-related-financial-disclosures.pdf and the associated Regulatory Impact Analysis https://environment.govt.nz/assets/Publications/REDACTED-CRFD-Regulatory-Impact-Assessment-July-2020.pdf.

primary users are increasingly demanding reliable climate-related information as a condition for investing or doing business. We would therefore expect entities to incur higher costs over time as they respond to market-driven demand for climate-related disclosures even if the ISSB were to not issue climate-related standards. We also note that assessing and managing climate-related financial risks is increasingly becoming a legal requirement for many entities through existing obligations[29], such as directors' duties and stock exchange listing rules.

Submitters may make very different assumptions about the basis for calculating compliance costs. Some may take a marginal cost approach, while others may allocate joint and common costs using diverse approaches. The potential for the use of widely different approaches to compliance costs is high given that the objective is to encourage reporting entities to integrate climate risk management into their existing systems rather than establish new stand-alone systems. Some submitters may also not be clear about whether new costs are one-off or ongoing.

We consider that it is not reasonably practicable to quantify benefits, as they are predominantly indirect. Furthermore, the scale of the benefits is highly dependent on whether the ISSB's climate-related standard(s) are widely adopted. The Government Policy Statement for the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill, the New Zealand government noted that potential benefits include:

- enabling primary users to assess the merits of how entities are considering those risks and opportunities;
- better decisions based on these assessments (and therefore more efficient markets); and
- support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

We consider that the ISSB should have regard to cross-jurisdictional differences in costs and benefits, which are likely to be significant. The differences are driven by a range of factors including the type, size and number of entities in scope of the reporting requirements, jurisdictional reporting and corporate governance requirements, access to relevant data and the relative maturity in voluntary TCFD reporting. To illustrate, New Zealand officials found that the analysis of costs carried out by United Kingdom Financial Conduct Authority (UK FCA) had limited relevance to New Zealand's circumstances because our economy is much smaller, and our large businesses are also commensurately smaller than large UK businesses. The fixed costs of regulation almost always have a disproportionately higher impact for entities in smaller economies.

This is one of the reasons that we recommend simplifying the standard to make it more principles based. Ensuring that the costs are proportionate for the many small countries around the world will better serve the purpose of acting as a global baseline. We think this will make meeting the disclosure requirements more understandable and therefore more attractive for reporting entities as they will also be able to read and navigate [Draft] IFRS S2 quicker and easier.

1.1. Question 12(c)

We suggest that the costs and benefits associated with meeting the ISSB's more detailed financial impact disclosures (proposed paragraph 14(b)), the results of resilience/scenario analysis (proposed paragraph 15(a)) and against the industry-based metrics (proposed paragraph 20(b)) should be

[29] See the work of the Commonwealth Climate and Law Initiative, which has written on this matter in the context of Commonwealth countries www.ccli.ouce.ox.ac.uk.

thoroughly considered. At the same time, we note that information on the costs and benefits of each disclosure is not determinative on its own and needs to be considered in the broader context.

13. IFRS S2 Question 13—Verifiability and enforceability

We have significant experience on this topic after working intensively on this issue for over the past year. Given the legislative mandate in the New Zealand context with respect to the climate standard, we have drafted our climate standard to work from an assurance practitioners' perspective, with a focus on the assurance of greenhouse gas emissions. This has impacted our disclosure content, structure of the section on metrics and targets, and the adoption provisions. There are many challenges that have arisen which we can provide further information on as desired, or to discuss.

14. IFRS S2 Question 14—Effective date

We have used first-time adoption provisions to ease the burden on preparers in our proposed NZ CS 2, rather than using differing effective dates. The first-time adoption provisions relate to specific disclosure requirements, in our context we have provided relief in relation to the disclosure of financial impacts, transition plans, Scope 3 GHG emissions, comparatives for metrics and analysis of trends. We suggest the ISSB consider making use of first-time adoption provisions in this way.

15. IFRS S2 Question 17—Other comments

We have four other comments.

First, given where entities are at on climate reporting maturity globally (many of whom are still getting started), we consider that [Draft] IFRS S2 will unavoidably play a role to shape the expectations regarding what is to be reasonably expected of an entity in relation to climate risk management. This is important because it means entities will be looking to standard setters for guidance (or at least to be directed to guidance), which can be necessary to understand the standard itself. We encourage more work to clarify how the ISSB sees the role of existing TCFD (and non-TCFD) guidance and acknowledge whether any further guidance will be issued by the ISSB.

Second, throughout the standard the word 'carbon' is used as shorthand for all greenhouse gases, such references to 'carbon offsets', 'certified carbon offsets', 'internal carbon prices' and 'the transition to a lower-carbon economy'. The word 'carbon' risks entities reading and applying it to the exclusion of other critical greenhouse gases, such as methane and nitrous oxide. 'Carbon' should be replaced with references to 'greenhouse gas emissions', or 'emissions' as a more appropriate shorthand.

Third, we encourage using 'must' instead of 'shall', which we have done in our Aotearoa New Zealand Exposure drafts for climate-related disclosures, as we consider it to be a more modern style of plain English.

Fourth, we have included a standalone disclosure on business model and strategy in our draft climate-related standard. This disclosure ensures that any information about impacts on the business model and strategy, or changes to it, can be understood by primary users. We suggest ISSB also considers adding this.

Appendix 3: Detailed comments on [Draft] IFRS S2 (Question 5) as it relates to offsets

Purpose

Questions 5(c) and (d) of [Draft] IFRS S2 relate to offsetting. The purpose of this appendix is to explain in detail why offsetting is not a plausible emissions-reducing strategy for individual corporate and financial sector entities.

Recommendation

We recommend that:

a. offsetting should not be included in the Strategy and Decision-making section of a climate report; and
b. an offset-related disclosure requirement should instead be added to the Metrics and Targets section as it relates to GHG emissions reductions targets.

Discussion

The sixth assessment report published by the Intergovernmental Panel on Climate Change states that limiting warming to 1.5^{0}C requires deep and immediate cuts to emissions, particularly for the wealthiest nations that produce a disproportionately high share of global emissions.[30] Science-based research has been conducted on how this translates into reduction targets for entities that want to align their emissions reduction with a 1.5^{0}C pathway.[31] The general market understanding is that this requires around a minimum 42% reduction in emissions by 2030, using 2020 as the base year. Where an entity's base year is later than 2020, a steeper reduction trajectory is required to reach 42% by 2030.

The scale of the required reductions means that there is an emerging global consensus that offsets cannot be an important part of a credible, long-term transition plan for an individual corporate or financial entity. There is broad support for this view in recently published papers by climate scientists[32] and voluntary guidance, standards and commitment statements developed by credible organisations. The following sources all broadly note that offsets can play only a minor part of a credible transition plan:

a. the Oxford Principles for Net-Zero Aligned Carbon Offsetting,[33]
b. the International Carbon Reduction & Offset Alliance,[34]
c. the Science Based Targets Initiative,[35]

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30 *Sixth Assessment Report, Climate Change 2022: Mitigation of Climate Change, IPCC Working Group III, April 2022.*

31 Based on research into emissions reduction pathways that align with remaining IPCC emissions budgets between 2020 and 2035. Findings indicate that emissions targets need to be at least 42% by 2030 under an absolute contraction approach. SBTi use a linear trajectory equating to 4.2% reduction per annum for a minimum 5-year period. See Pathway-to-Net-Zero.pdf (sciencebasedtargets.org) and foundations-of-SBT-setting.pdf (sciencebasedtargets.org).

32 See, for example, www.cssn.org/wp-content/uploads/2022/06/Net-Zero-and-Carbon-Offsetting-Position-Paper.pdf

33 smithschool.ox.ac.uk/sites/default/files/2022-01/Oxford-Offsetting-Principles-2020.pdf

34 www.icroa.org/offsetting

35 sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf and sciencebasedtargets.org/resources/files/SBTi-Finance-Net-Zero-Foundations-paper.pdf

d. the CDP,[36]

e. the Investors Group on Climate Change,[37]

f. Say on Climate,[38]

g. the Net-Zero Banking Alliance (NZBA),[39]

h. the Net Zero Asset Managers Initiative (NZAM),[40]

i. the Net-Zero Asset Owner Alliance (NZAOA),[41]

j. the Paris Aligned Investment Initiative (PAII),[42]

k. the Net-Zero Insurance Alliance (NZIA),[43]

l. the Net Zero Financial Service Providers Alliance (NZFSPA),[44]

m. the Net Zero Investment Consultants Initiative (NZICI),[45]

n. the New Zealand Climate Leaders Coalition.[46]

We outline other reasons below for our view that the role of offsetting in contributing to the goals of the Paris Agreement are limited.

The remaining global emissions budget is very limited

Rapid decarbonisation is an indispensable part of any net zero strategy because the remaining global emissions budget is very limited.[47]

Offsets do not guarantee the removal of an equivalent amount of CO_2

There are several problems around the degree to which offsets guarantee removal of CO_2. A position paper published by the Climate Social Science Network summarises the problems as follows: [48]

> In a world where neither biodiversity protection, nor carbon removal are being delivered at socially desirable levels, it may be tempting to see offsetting as a means of mobilising additional finance to such ends. This is a dangerous perception. The offsetting process currently guarantees the continued emission of greenhouse gases by the purchaser. Because of the problems of scale, additionality, equivalence, leakage, double counting and low prices noted above, offsets today do not guarantee the removal of an equivalent quantity of CO_2.

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36 cdn.cdp.net/cdp-production/cms/reports/documents/000/006/127/original/2021_Climate_transition_plan_disclosure_FINAL.pdf?1647432846

37 igcc.org.au/wp-content/uploads/2022/03/IGCC-corporate-transition-plan-investor-expectations.pdf

38 sayonclimate.org/wp-content/uploads/2021/09/How-to-evaluate-a-climate-plan_evaluation-criteria-010721_public.pdf

39 unepfi.org/wordpress/wp-content/uploads/2021/10/NZBA-Frequently-Asked-Questions.pdf

40 parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Asset-Owner-Commitment-Statement.pdf

41 unepfi.org/wordpress/wp-content/uploads/2022/01/NZAOA-Target-Setting-Protocol-Second-Edition.pdf

42 parisalignedinvestment.org/media/2021/10/Net_Zero_Investment_Framework_final.pdf

43 unepfi.org/psi/wp-content/uploads/2021/07/NZIA-Commitment.pdf

44 netzeroserviceproviders.com/our-commitment/, https://www.unpri.org/download?ac=14611

45 unpri.org/download?ac=14612

46 climateleaderscoalition.org.nz/wp-content/uploads/2022/06/New-Statement-Guidance-FINAL.pdf

47 Strauch, Y., Dordi, T., & Carter, A. (2020). Constraining fossil fuels based on 2°C carbon budgets: The rapid adoption of a transformative concept in politics and finance. Climatic Change, 160(2), 181–201. https://doi.org/10.1007/s10584-020-02695-5

48 www.cssn.org/wp-content/uploads/2022/06/Net-Zero-and-Carbon-Offsetting-Position-Paper.pdf at p12.

> Moreover, market competition inherent to such systems incentivises the provision of poor-quality, low-cost offsets. These not only risk increasing social or environmental harms, they deter concerted action on emissions reduction by suppressing carbon prices and sustaining illusions of easy future fixes for climate change.

The planet isn't large enough

The limited land and space available to host additional tree coverage[49] and the associated water, materials, energy, social and environmental impacts associated with offsets mean that they could conflict with other aspects of generally accepted credible transition plans. For example, the principle of a just transition and efforts to address physical climate risks. In New Zealand's context, planting exotic species (pine trees in particular), can sequester carbon but can also increase a given entity's physical climate risks and raise concerns about the social impacts on rural communities.[50]

The Investor Group on Climate Change has noted that 'over-reliance on offsets and nature-based solutions potentially delays efforts to abate emissions within a company's value chain and may not account for the limited land and space available to host additional tree coverage or overestimates carbon storage potential.' [51]

Many offsets involve short-lived storage

Many offsets involve short-lived storage. There is debate about whether short-lived offsets can be considered to be aligned with the science. Changing political priorities, economic conditions, fire, disease and risks associated with the physical and transition impacts of climate change itself, all of which increase the risk that short-lived storage could lead to emissions being re-emitted in the near-to-medium term. Short-lived refers to methods of storing emissions which have an uncertain or higher risk of being reversed within decades.[52]

Offsets increasingly need to be sourced from activities that achieve long-lived storage if they are to be aligned with the goals of the Paris Agreement. They also need to be very low risk of re-release into the atmosphere, due in part to the presence of physical and transition risks arising from climate change.[53]

Offsetting can be a barrier to meaningful transformation

Offsetting has the potential to 'crowd out' long term strategic changes due over-reliance of thinking about the transition from a marginal cost, rather than a transitional or transformational perspective.[54] Comparing only the marginal cost of offsetting compared to other more transformational abatement options (where the quantified emissions reduction potential will likely be subject to higher uncertainty at the time of the comparison) can present offsets in an overly positive light.

Offsetting strategies can displace innovation

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[49] IGCC-corporate-transition-plan-investor-expectations.pdf at p8.

[50] www.theaotearoacircle.nz/reports-resources/biodiversity at p3.

[51] Dooley et al., Carbon removals from nature restoration are no substitute for steep emission reductions, One Earth (2022), https://doi.org/10.1016/j.oneear.2022.06.002 and J.-F. Bastin, Y. Finegold, C. Garcia, D. Mollicone, M. Rezende, D. Routh, C.M. Zohner and T.W. Crowther, 'The global tree restoration potential', Science, vol. 365, no. 6448, pp.76-79, July 2019.

[52] www.smithschool.ox.ac.uk/sites/default/files/2022-01/Oxford-Offsetting-Principles-2020.pdf at p9.

[53] Ibid.

[54] The New Economics of Innovation and Transition: Evaluating Opportunities and Risks, A Report by the Economics of Energy Innovation and System Transition (EEIST) Consortium.

Offsetting can be perceived to be more attractive than options such as innovation and changes in strategic direction, because the latter are perceived to be more uncertain and therefore not suitable for investment. However, as noted by EEIST[55] 'choices with higher near-term costs and high near-term uncertainty [such as investing in innovation] can… generate options to capture future opportunities with economic returns, while in comparison, other policies that have low near-term costs with low uncertainty [do not]'. Innovation is critical to decarbonisation in hard-to-abate sectors, such as agriculture, steel and aviation.[56] If the entities that make up those sectors invest significantly in offsetting, there is little chance that those sectors will be transformed in line with what climate science demands.

55 eeist.co.uk/wp-content/uploads/Scientific_working_paper_series_1.pdf

56 See https://igcc.org.au/wp-content/uploads/2022/03/IGCC-corporate-transition-plan-investor-expectations.pdf at p10.

Appendix 4: Consolidated list of recommendations by the New Zealand External Reporting Board

Recommendations relating to [Draft] IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information

1. Delete 'Financial' from the name of the standard.

Question 1 – Overall approach

2. Raise the ambition and work towards 'one pillar' for sustainability reporting, rather than setting out to create one of two interoperable pillars.
3. Meaningfully involve indigenous peoples on this project before issuing IFRS S1 to ensure their knowledge and perspectives on sustainability are fully considered.
4. Accelerate efforts to involve other international sustainability standard setters, including but not limited to GRI.
5. Critically assess whether the TCFD framework is appropriate for a one or two pillar approach to sustainability reporting.

Question 2 – Objective

6. Develop a more principles-based standard and reduce the amount of prescription and examples in IFRS S1.
7. Clarify what is considered in scope of 'sustainability' through guidance material.
8. Undertake further work on how impacts, dependencies and relationships are included in the standard, including considering:
    a. elevate impacts, dependencies and relationships to the same level as risks and opportunities
    b. explicitly requiring impacts, dependencies and relationships to be disclosed distinctly from risks and opportunities
    c. defining these terms, given their importance and the potential for different interpretations.

Question 4 – Core content

9. Amend the strategy objective to better reflect the content of the underlying section.
10. Remove reference to 'significant' throughout the standard. The concept of materiality should prevail.
11. On resilience analysis:
    a. further engage with existing communities of practice with respect to environmental and sustainability-related scenario analysis
    b. consider opportunities to build off climate-related scenario analysis rather than requiring separate 'resilience analysis'
    c. remove standalone sustainability-related resilience analysis from [Draft] IFRS S1 and develop further guidance on this topic.
12. Further work on industry-based standards, including the consideration of other industry-based standards such as GRI standards and others.
13. Further work on the equivalent to transition plans in [Draft] IFRS S1.

Question 5—Reporting entity

14. Develop guidance on sustainability-related risks and opportunities in the value chain.
15. Remove proposed paragraph 38, specific disclosure of related financial statements.

Question 6—Connected information

16. Modify the requirements regarding coherence, by including it as a separate QC. Relocate the content from proposed paragraph 42-44 of [Draft] IFRS S1 to Appendix C.

Question 8—Materiality

17. Clarify the definition of material information across proposed paragraphs 2, 9, 56 and 57.
18. Develop guidance for preparers on making materiality judgements in relation to sustainability-related disclosures.

Question 9 – Frequency of Reporting

19. Amend the proposed Paragraph B2 to allow an entity to report one year of comparatives in the second year of reporting and revisiting paragraphs 63 and 64.

Question 11 – Comparative information, sources of estimation and outcome uncertainty, and errors

20. Amend the proposal to require the entity to provide an explanation of the change including why the replacement metric provides more useful information.
21. Replace 'to the extent possible' with 'where applicable' or 'where reasonably practicable' in proposed paragraph 80.

Question 17 – Other comments

22. Consider alternative definitions of value, including indigenous peoples' definitions, as a central part of IFRS S1.
23. Provide guidance on trade-offs between competing qualitative characteristics.

Recommendations relating to [Draft] IFRS S2: Climate-related Disclosures

Question 1 – Objective of the Exposure Draft

1. Broaden the objective to also include the impact of climate change on the entity's strategy.
2. Remove explanatory material and examples throughout [Draft] IFRS S2 and consider issuing the material as non-binding guidance.

Question 2 – Governance

3. In relation to paragraph 5(b):
    a. Either delete this disclosure requirement.
    b. Or, in addition to the proposed disclosure, also require information to be disclosed about whether the entity's terms of reference, board mandates and other related policies lead to action.
4. In relation to paragraph 5(e), either clarify what is meant by "including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required," or delete those words.

Question 3 – Identification of climate-related risks and opportunities

5. In paragraph 9(a), replace "significant" with "material".
6. Define "material" by cross-referring to paragraph 2.11 of the IASB's *Conceptual Framework for Financial Reporting*.
7. Consolidate adaptation information under a single heading.

Question 4 – Concentrations of climate-related risks and opportunities in an entity's value chain

8. Delete proposed disclosure 12.
9. Provide guidance material on the paragraph 9 disclosures, including guidance on value chain and risk and opportunity concentration.

Question 5 – Transition plans and carbon offsets

10. Clarify that adaptation is within scope of reporting entity's transition plans.
11. Amend the references to the transition to a low emissions economy by adding 'climate resilient' throughout the standard, particularly in the definition of transition plans and transition risks.
12. Remove the references to carbon offsets in the Strategy and Decision-making section.
13. Add an offset-related disclosure requirement to the Metrics and Targets section as it relates to GHG emissions reductions targets.
14. Refer to offsets more generally, not just carbon offsets.

Question 6 – Current and anticipated effects

15. Require more disaggregation of disclosures than proposed to clearly distinguish between current and anticipated impacts. We recommend four disclosures:
    a. *Current impacts:* The entity's current physical and transition impacts (note in particular the lack of reference to risks/opportunities)
    b. *Current financial impacts:* The entity's current physical and transition financial impacts (note in particular the lack of reference to risks/opportunities)
    c. *Anticipated impacts:* The entity's anticipated impacts of climate-related risks and opportunities reasonably expected by the entity

d. *Anticipated financial impacts:* The entity's anticipated financial impacts of climate-related risks and opportunities reasonably expected by the entity.

16. Delete proposed disclosure 14(b) relating to adjustments to assets and liabilities within the next year.
17. Delete proposed disclosure 14(c)(ii) relating to planned sources of funding to implement the entity's strategy.

Question 7 – Climate resilience

18. Broaden the strategy objective in paragraph 7 (see the suggested wording in our response to question 7(a) in Appendix 1.
19. Do not permit entities to use alternatives to scenario analysis and deal with any concerns regarding compliance costs in other ways.
20. Delete proposed disclosure 15(a) and rely on the disclosures of risks and opportunities, financial effects and transition plans.
21. Include explicit references to temperature outcomes in proposed disclosure 15(b).
22. Remove proposed disclosure 15(b)(i)(2) to align with the ISSB's definition of climate-related scenario analysis which covers both physical and transition risks and opportunities.
23. Remove the words prior to "policy assumptions" in disclosure 15(b)(i)(8).

Question 8 – Risk management

24. Retain the requirement to disclose information about the processes for identifying climate-related risks.
25. Delete the requirement to disclose information about the processes for identifying, assessing and managing climate-related opportunities — paragraphs 17(a)(ii), 17(c), 17(d(ii) and 17(f)
26. Replace paragraph 17(b)(iv) of IFRS S2 with the equivalent requirement in [Draft] IFRS S1 (i.e. If an entity changes what it discloses or how it presents information, it must provide an explanation of those changes and of the effect on the current reporting period's climate-related disclosures."
27. Align the wording of paragraph 17(b)(iv) , which relates to disclosing changes in processes, with the equivalent approach used in [Draft] IFRS S1.
28. Delete proposed disclosure 17(d) relating to processes for monitoring and managing climate-related risks.

Question 9 – Cross-industry metric categories and GHG emissions

29. Permit the use of methodologies other than the GHG protocol to define and measure Scope 1, 2 and 3 emissions.
30. Allow entities to present GHG information in accordance with the way that it is managed, not in the way proposed in paragraph 21(a)(iii).
31. Do not require the disclosure of an intensity measure for each scope.

Question 10 – Targets

32. Delete the disclosures proposed in paragraph 23 (c), (e) and (f) and consider moving them to guidance.
33. Require the use of a 1.5^{0}C scenario, rather than using the less clear term 'latest international agreement on climate change'.
34. Broaden paragraph 23(e) to cover other climate-related targets, not just GHG emissions reduction targets.

Question 11 – Industry-based requirements

35. Remove the industry-based requirements from [Draft] IFRS S2, including removing all references to SASB standards.
36. Develop guidance on the use of industry-based requirements.
37. Develop specific climate-related cross-industry metrics in consultation with relevant industries and primary users globally.
38. Ensure that there is due process in relation to every standard before they are mandated.

Question 12 – Costs, benefits and likely effects

39. Ensure that compliance costs are proportionate for smaller economies by taking more of a principles-based approach than proposed in [Draft] IFRS S2.

Question 14 – Effective date

40. Consider taking a phased approach to adoption to ease the burden on preparers in relation to first-time adoption.

Question 17 – Other comments

41. Carry out further work to determine the extent to which the ISSB will use TCFD and other non-TCFD guidance.
42. Replace the references to carbon emissions with 'greenhouse gas emissions' or 'emissions' throughout IFRS S2.
43. Replace 'shall' with 'must' throughout IFRS S2.
44. Add a requirement to disclose information about the impact of the entity's business model and strategy.