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Tēnā koe Amelia

Response to July 2022 Aotearoa New Zealand Climate Standards Exposure Drafts

Whatungarongaro te tangata, toitū te whenua (as man disappears from sight, the land remains).

KPMG New Zealand's purpose is to fuel the prosperity of Aotearoa New Zealand for the benefit of all New Zealanders – Titokona tō tātou tōnuitanga, mō Aotearoa, mō Tātou. We recognise that how our country responds and adapts to the challenges and opportunities that climate change presents, every entity in Aotearoa New Zealand will shape our future and the outcomes every New Zealander experiences. We consequently welcome the opportunity to provide our response to the exposure drafts of the Aotearoa New Zealand Climate Standards (the Exposure Drafts).

Overall comments

A different approach to first-time adoption

In our view the proposed new climate standards have real potential to drive the change that is needed in New Zealand, but not if adoption is seen as merely a compliance exercise. Therefore, we believe the emphasis should be on enabling entities to invest sufficient time to do it right and report high quality information that drives change in the time allowed. The first-time adoption provisions should be about helping to drive that quality mindset from the get-go and away from the "normal" compliance mindset when it comes to reporting.

By placing trust in entities to do the right thing, we suggest the XRB could allow entities to decide how to phase the information that they report, and hence which requirements are being fully met over the proposed three-year adoption period according to their own timetable. It is not about pushing out the deadlines, it is to allow entities time to take the actions that are needed that will drive real change.

A key element in encouraging a substantive first-time adoption approach would be to require entities in their first annual report, published after the effective date of the standards, to present their roadmap to full adoption and compliance. This will provide insights to primary users and drive greater accountability to ensure progress. Entities should also be required to report on their adoption progress in each subsequent climate disclosure report.

Maturity assessment and progress disclosure requirement

Experience of entities adopting TCFD disclosures since 2017, and public statements by both the XRB and FMA acknowledge that it will take time for entities to become confident and reach the expected level of maturity in providing the disclosures. We suggest that NZ CS 1 requires disclosure of an entity's progress in maturity of making the required disclosures, including what progress has been made during the year against the plan, and area(s) of focus for future years. This need not be a verbose disclosure – just at a level for investors to judge the entity's commitment to improvement and to allow the entity to manage expectations.

"Differential" reporting requirements for voluntary reporters

The Exposure Drafts encourage entities that elect or are otherwise directed to prepare climate statements to comply with all the requirements of the standards. We do not agree with this approach. We believe entities should be supported to "do the right thing" to embed the changes into their business and operations, and not be side-tracked by onerous reporting requirements. Providing a "fit for purpose" minimum level of disclosure for voluntary reporters would support comparability. We also consider that clear and easily adoptable guidance in this area would assist in wider adoption of climate reporting which ultimately will accelerate Aotearoa New Zealand's journey towards a lower carbon future.

In addition, consideration needs to be given to requirements that will support consistent reporting by government and public benefit entities given that many of these entities will be "directed" to produce climate statements under initiatives like the Carbon Neutral Government Programme. We do not believe that there should be a separate set of Climate Standards for these entities. We believe it is a task that the XRB should urgently turn their minds to given the number of directives that have already been issued and the expectation that there will be more to come as the pressure increases on entities in the public sector to make climate-related disclosures.

Climate Standard NZ CS 1

Except as noted below we have no significant comments in respect of NZ CS 1. In our view the standard is sufficiently robust and spending a lot more time fine-tuning it is unlikely to deliver a significantly different result. Entities should rather be encouraged to "just get started".

Paragraph 7

We agree with the proposal in NZ CS 1 paragraph 7. However, it seems there are potentially some key parts missing between subparagraphs (c) and (d). Firstly, once the risks and opportunities are understood, the governing body should consider its risk appetite for those risks. This sets the tone as to whether an entity should do lots/do nothing. It also then needs to be satisfied with management's approach to manage the risk (which should effectively be driven by risk appetite).

Subparagraph (d) could also be tweaked that effectively the governing body needs to do appropriate due diligence to ensure that management are effectively managing the risk. That may include monitoring achievement of metrics/targets.

We note that the Guidance for All Sectors does reference risk appetite, but is silent on potential mitigations to those risks.

Also with management's role, the standard is silent on management needing to ensure they are delivering on the mitigations/controls to manage risk in line with the governing body's risk appetite.

Climate Standard NZ CS 3

Fair presentation (paragraph 6)

We note that this section is based on concepts from the financial reporting framework and in practice these requirements are challenging to enforce because it is not commonly accepted that fair presentation is achieved simply by adding more disclosure. It is also contradictory to the general notion of the entity deciding what is material for the users of their disclosures.

In our view, paragraph 6 should be deleted.

Location of disclosures

We note that unlike the idea of "financial statements" being a single document, the legislation doesn't contemplate a "document" for climate statements. Climate statements are simply defined as the climate-related disclosures, so technically these disclosures can be provided "anywhere" and scattered throughout publicly available information. We acknowledge that this could be challenging for directors to provide the required sign off. However, considering the future of reporting technology, the type of information being reported under these standards, and the speed and agility required of entities to continuously provide useful information, we believe entities should not be required/expected to produce "a document" of some sort. Such requirement/expectation runs the risk of bringing these disclosures into the realm of glossy financial statements with an unnecessary amount of time spent by already stretched resources. Entities should be allowed (and encouraged) to explore innovative ways in which the disclosures could be provided.

We believe the requirement in paragraph 14 to provide a table with a summary of the location of disclosures is a useful disclosure to guide users to where the information can be found, and to provide a central point for sign off by directors.

Following on from the above, we believe "climate-related disclosures" should not be a defined term. It is not defined in legislation, the proposed definition seems limiting, and the phrase is the title of NZ CS 1.

Reporting period and restatement of comparatives

We question whether the section on reporting period is necessary in NZ CS 3 because the legislation defines the reporting period, and it is linked to the financial statement reporting period.

As mentioned above, we consider that entities should be free to consider innovative ways in which the disclosures could be provided. The requirements in NZ CS 3 around interim periods, subsequent events, and restatement of comparatives are very much based on the equivalent financial reporting requirements. We can understand the rationale for following this approach and likely, this would be useful guidance in respect of the numerical disclosures.

However, we consider that in respect of narrative information, users may be best served by having up to date information. Therefore, we believe it would be useful to include a requirement similar to the continuous disclosure requirement for financial market participants. We are not suggesting that entities be required to update all disclosures all the time – it is still very much based on material changes. However, this may help to change the mindset about reporting being something that happens in the four months after balance date, and it may encourage entities to tell their story as it develops in an open and transparent, non-threatening environment.

Separately, we consider that it will be useful to define "error".

Materiality

We believe significantly more detailed guidance is required in respect of materiality in a non-financial reporting context. Saying that, although the overview included in NZ CS 3 is generic, in our view the time would be better spent doing a separate project in the future than to enhance the level of guidance in NZ CS 3 now.

Use of "amounts"

Use of the term "amounts" in NZ CS 3 seems to limit the requirements to "quantitative disclosures". We suggest changing this to a term that makes it clear that these requirements equally apply to qualitative information.

Guidance

We consider the guidance to be helpful in providing examples of what the disclosures may look like. However, it doesn't provide guidance on what is required to be done (i.e. the "how" to come up with the information) in order to be able to make disclosures and hence entities may underestimate the effort required. It may be useful to make it explicit upfront that preparation for reporting is a significant task and the time required to produce quality information shouldn't be underestimated.

From a practical perspective, we question the format in which the guidance is provided. There is a lot of (necessary) repetition of the requirements of the standards in order to put the guidance into context. Furthermore, the expectation is that the guidance will be updated regularly as practice evolves. In what is a fast-moving environment, it seems somewhat dated to have the guidance presented in a traditional 70+ page pdf document rather than a more dynamic live environment, which can be updated on a continuous basis. We consider the format of the guidance on scenario analysis and GHG emissions accounting to be more in keeping with this regime.

Interaction with financial statement disclosures

More entities are beginning to understand the need for disclosures in their financial statements about risks, other than financial risk, the interconnectedness of risks, and the need for consistency with disclosures in their forthcoming climate statements. It will be useful for the XRB to provide guidance in this regard, to set expectations of how entities should apply existing standards and the impact of climate disclosures in financial statements.

Moving beyond the climate standards

As commented in our previous submission, we are supportive of the objective to provide Climate Reporting Entities (CRE) with a set of mandatory disclosure requirements to ensure consistency in reporting of the impacts that the CREs expect the climate to have on their operations, as well as the actions they are taking to mitigate their organisational impact on a warming climate. We recognise the importance of these standards in the context of future disclosure expectations around Taskforce on Nature-related Financial Disclosures (TNFD), Modern slavery and Diversity pay gap information, to name a few.

We encourage the XRB to progress work on broader sustainability reporting requirements. This will require not only to start work on developing reporting requirements on other topics, but also extending the user definition to go beyond the needs of capital providers and as a consequence, require an update to this suite of climate standards. We believe that having a user definition that matches the aspiration of our Zero Carbon legislation is an important next step to ensure relevant and useful information is reported to all users of the disclosures.

Lastly, although international alignment remains an important consideration, we believe it should not hold back progress in New Zealand or impact our leadership position in the broader non-financial reporting space.

We once again would like to thank you for the opportunity to provide a submission on this consultation document. Please do not hesitate to contact Charles Ehrhart on cehrhart@kpmg.co.nz, Sanel Tomlinson on saneltomlinson@kpmg.co.nz, Simon Wilkins on swilkins1@kpmg.co.nz or me on iproudfoot@kpmg.co.nz should you wish to discuss our submission further.

Ngā mihi

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