

Submission

Aotearoa New Zealand Climate-related disclosures: Final consultation

27 September 2022

Overview

The Responsible Investment Association Australasia (RIAA) thanks the External Reporting Board (XRB) for the opportunity to comment on its final exposure drafts of Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (CS 1), Aotearoa New Zealand Climate Standard 2 (NZ CS 2): *First-time Adoption of Aotearoa New Zealand Climate Standards* (CS 2) and Aotearoa New Zealand Climate Standard 3: *General Requirements for Climate-related Disclosures* (CS 3), and on the staff guidance.

RIAA congratulates the XRB on its robust proposed mandatory climate-related disclosure regime, establishing Aotearoa New Zealand as a frontrunner in this space.

As RIAA has previously commented, the XRB disclosures standard is an opportunity to effectively set a benchmark for global standards and significantly improve the extent and accuracy of climate-related information in markets. It will enable investors and others to more accurately gauge the risks and value of companies, and to make better-informed decisions. It will ultimately boost efforts towards reducing greenhouse gas (GHG) emissions in line with the Paris Agreement goal.

The changes in the final exposure drafts clarify some key aspects of the regime, offer clear rationale and provide a basis for robust disclosures, for example, to improve transparency in the use of offsets.

While RIAA supports the XRB's proposals overall, this submission identifies some persistent challenges and recommends changes to enhance the clarity and comparability of disclosures. We refer to RIAA's previous submissions to the XRB's consultations on [Governance and risk management](#) and [Strategy, targets and metrics](#). We also make recommendations for consideration in the planned post-implementation review of the disclosures framework.

Recommendations

1. That the XRB review the ongoing consistency of the disclosures framework with global standards.
2. That the XRB provide further direction and oversight on the development of scenario analyses.
3. That the XRB move towards specifying industry metrics, in line with the ISSB approach.
4. That the XRB and FMA continue to assess whether reporting entities are meeting the intention of the standard in relation to materiality.
5. That the definition of 'primary user' include regulators.
6. That the XRB and FMA monitor the feasibility of disclosures by MIS Managers in the early reporting periods and set clear and practical expectations.
7. That the staff guidance be reviewed and updated periodically to ensure it is current, reflects leading practice and addresses practical issues faced by reporting entities and users.

Response to XRB questions

1) Do you think draft Aotearoa New Zealand Climate Standards will meet primary user needs?

RIAA's view is that overall, the proposed disclosure requirements meet the needs of investors in the Aotearoa New Zealand market. We make the following relevant observations about some challenges that persist:

- **Global consistency:** We note that the XRB's three-standard structure differs somewhat from the Taskforce for Climate-related Financial Disclosures (TCFD) framework and that the International Sustainability Standards Board (ISSB) standards are still under development. The XRB should examine this in the first post-implementation review and revisit the standards over time, to ensure the reporting framework is consistent with the prevailing international standard and meets investors' needs of global comparability and consistency.
- **Scenario analysis:** We welcome the recent changes that bring more clarity and purpose to scenario analyses. We also refer to our previous recommendation that the XRB should lead the process of developing industry-specific scenario analyses. This would provide strong governance and independence to the process, and improve the comparability and clarity of scenarios across industries. Further direction and oversight from the XRB would assist prompt and consistent development of scenarios.
- **Industry-specific metrics:** The lack of specified or mandated industry metrics is an aspect of the standard where a principles-based approach is not likely to deliver for users. We note that the ISSB currently proposes to specify the Sustainability Accounting Standards Board industry-specific topics and metrics within its climate disclosures standard, to provide a consistency in the detail of disclosures. We previously recommended that the XRB leave open the option of specifying industry metrics and engage with the ISSB. Given developments in recent months, we reiterate that recommendation more strongly.
- **Assurance:** While noting the challenges of reporting against the standard in the early reporting periods, we recommend a timeline be specified for a transition from limited assurance to reasonable assurance.

Recommendation 1: That the XRB review the ongoing consistency of the disclosures framework with global standards.

Recommendation 2: That the XRB provide further direction and oversight on the development of scenario analyses.

Recommendation 3: That the XRB move towards specifying industry metrics, in line with the ISSB approach.

2) Do you have any views on the defined terms in draft Aotearoa New Zealand Climate Standards?

RIAA broadly supports the definitions in the standard. We note, in line with our previous comments:

- **Materiality:** We welcome the XRB's further clarity on the definition of 'materiality', in particular that entities should think broadly and consider the 'feedback loops' of a business's impact on the climate. The scope of what is material is likely to shift and expand with the expectations of investors, regulators and other stakeholders. The XRB, with the Financial Markets Authority (FMA), should continue to assess whether reporting entities are meeting the intentions of the standard, and the needs of investors, and whether the prevailing approach in Aotearoa New Zealand is aligning with international leading practice.
- **Primary users:** We appreciate the importance of aligning this definition with the emerging ISSB standard. However, we reiterate our view that regulators (including supervisors) should be incorporated into the definition of primary users. While regulators can access the same information on demand in an ad hoc manner, having standardised, regular disclosures will assist supervision and enforcement. Recognising the broader significance of these mandatory disclosures is necessary to deliver the public accountability expected of the disclosure regime.

Recommendation 4: That the XRB and FMA continue to assess whether reporting entities are meeting the intention of the standard in relation to materiality.

Recommendation 5: That the definition of 'primary user' include regulators.

- 3) Do you have any practical concerns about the feasibility of preparing the required disclosures in draft Aotearoa New Zealand Climate Standards? In responding to this question, please consider the proposed first-time adoption provisions in NZ CS 2 and your answer to question 4. Please also clearly explain what would make the specific disclosure unfeasible to disclose against either in the immediate term or the longer term.**

We do not see any major impediments to reporting. However, from the perspective of MIS managers as reporting entities, there will be significant challenging in preparing disclosures in the early periods, as these will require disclosures from investee companies. This will be mitigated somewhat by the first-time reporting provisions. Anecdotally, this issue has been difficult for entities reporting under the EU Sustainable Financial Disclosure Regulation, given broader corporate reporting requirements have not developed in tandem.

We recommend that the XRB and FMA monitor the feasibility of disclosures for MIS Managers in the early reporting periods, and set clear and practical expectations.

Recommendation 6: That the XRB and FMA monitor the feasibility of disclosures by MIS Managers in the early reporting periods and set clear and practical expectations.

- 4) Do you agree with the proposed first-time adoption provisions in NZ CS 2? Why or why not?**

We note the expansion of the first-time adoption provisions since the XRB's previous consultation. While this means investors will not have access to some information in the early periods, including transition plans and scope 3 GHG emissions, it balances reporting entities' preparedness and capability with investor information needs in a way that retains the standard's robustness over the medium and longer term. Disclosure of things such as methodology, assumptions, any proxies used, and the proportion of the company or portfolio that is being disclosed will all be critical qualitative information and context for disclosures, particularly in the early reporting periods.

We note that entities are not prevented from reporting on the aspects which are subject to first-time adoption provisions. We welcome the XRB's proposed approach, as it does not 'delay the inevitable' or prevent companies which are advanced in their reporting approach to include this information from the first reporting period.

- 5) Do you think the draft staff guidance documents will support CREs when making their disclosures and support consistent application of the disclosure requirements? Why or why not?**
- a) Do you think the guidance is under, adequately or overly specific and granular?**
 - b) Do you consider that anything in the guidance should be elevated into the standard? Should anything be demoted from the standard into guidance?**

The guidance for MIS Managers is a useful document for fund managers. The pinpoint references to external resources provide valuable global context, clarity, time-savings and practical guidance. The guidance provides useful clarity on practical issues such as using qualitative commentary on current impacts as a way of 'bridging the gap' while quantitative data is built over time (p 17), providing real-life examples and processes, and clarifying that fund managers should take a high-level approach in year one, followed by a deeper dive into the climate-related factors most important to their investment strategy (pp 20-23).

The staff guidance should be periodically reviewed and updated to ensure that it:

- reflects robust practice, so that it continues to be useful and aligns with the expectations of investors, the XRB and the FMA.
- addresses practical issues that reporting entities and users face as disclosures against the standard start to roll out, and
- remains current, for example, in relation to the external references.

Recommendation 7: That the staff guidance be reviewed and updated periodically to ensure it is current, reflects leading practice and addresses practical issues faced by reporting entities and users.

- 6) Paragraphs 13 to 19 of draft NZ CS 3 are the proposed location of disclosures requirements. Paragraphs BC14 to BC20 of the basis for conclusions on draft NZ CS 3 explain the XRB Board's intent regarding these proposed requirements. Do you agree with the proposed location of disclosures requirements? Why or why not?**

We support the proposed location requirements. Reporting under the standard could be monitored with a view to ensuring that disclosures are clear and easy to navigate for users.

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RIAA champions responsible investing and a sustainable financial system in New Zealand and Australia and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy. With approximately 500 members managing more than US\$29 trillion in assets globally,

RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across New Zealand and Australia. RIAA's membership includes superannuation funds, KiwiSaver default providers, fund managers, banks, consultants, researchers, brokers, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry, across the full value chain of institutional to retail investors.