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27 September 2022

April Mackenzie
Chief Executive
External Reporting Board

Tēnā koe April

RE: Climate-related Disclosures Consultation: full consultation

Thank you for the opportunity to provide ACC's feedback on the exposure drafts of the *Aotearoa New Zealand Climate Standards: NZ CS 1, 2 and 3*. This feedback is predominantly from an Investments perspective which is ACC largest emissions source.

Background

As a Crown Entity, ACC is committed to supporting the New Zealand Government in achieving its carbon reduction objectives and international commitments. In August 2020, ACC released our Climate Change Framework with the aim to be proactive in leading New Zealand's commitment to net zero emissions by 2050, including supporting efforts to limit average temperature rise to less than 1.5 degrees above pre-industrial levels. In October 2021 we published climate related disclosures in our Annual Report using the TCFD framework and have registered as a "TCFD supporter".

Feedback

ACC is supportive of the Climate-related Disclosures and outlines specific feedback in the appendix below. Some key themes cover:

- Phased in approach – the changes being proposed would benefit from a longer phased in approach
- Consistency - the disclosure requirements and the guidance have potential inconsistencies; we suggest reviewing the consistency across the documentation
- Comparability – the disclosure requirements may not achieve the goal of comparability across entities
- Feasibility - we suggest reviewing the requirements from a feasibility perspective, given data is not always as available or robust as we would like it to be, and legislative requirements are often changing

Nāku iti noa, nā

Nikolas Cheals
Head of Procurement and Properties
Accident Compensation Corporation

High level feedback:

We agree with the principles-based approach but note it is not clear that the standards will allow comparability across entities.

ACC's view is that the framework documentation could be better consolidated. It is somewhat fragmented and allows for interpretation inconsistencies between the Exposure Drafts and Guidance, particularly for MIS Managers. The XRB should consider consolidating the documentation to provide better cohesion and consistency between the aspirations of the disclosures and realities of the guidance.

As an example of the above, we note the disclosure requirements of CS1, Section 11 emphasise quantitative disclosure of the financial impacts, with an explanation if this cannot be achieved. However, the MIS Guidance in 2.3.2 acknowledges the challenges in calculating such information, even suggesting it is unlikely to be feasible. These differences between the aspiration of the disclosure and the practical reality of the quantifying the impact creates inconsistencies between the Standard and Guidance. In our view, consolidating the framework documentation as much as possible will go some way to help address such issues. One way to address the MIS Manager specific inconsistencies could be to directly address differences in the reporting requirements of MIS Managers in CS1.

CS1

Objective

We feel the objective should focus on disclosure requirements only. As currently drafted, the objective goes beyond the core disclosure requirements of the standard by referring to the end use of the information. The objective states: "The ultimate aim is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future." How Primary Users choose to use the disclosed information is beyond the disclosure scope of the standard. ACC feel a more succinct objective, such as that used in CS3, is a better reflection of the core objective.

The guidance acknowledges that faithful representation is attained when the information is complete, neutral and free from error. Climate reporting is an area where significant uncertainty and knowledge gaps remain and we recommend that the XRB adopt a longer phased approach for the inclusion of new disclosures.

Phased in approach

We believe a longer phased in approach over a 3-5 year period would be more practical, especially where value chains need to be considered, as guidance is incomplete and data quality is still developing. For example, in the MIS staff guidance, it is acknowledged that quantitative analysis of potential financial impacts will not likely become the norm until the quality and breadth of data disclosed by their investee companies improves (p31). This is acknowledged in the first-time adoption relief, however, this will take more than one year for many if not most companies and, therefore, for the MIS Managers.

This is also the case for (15) – Transition Plans. Here, it is acknowledged that, for MIS Managers, that guidance on transition plans remain in process implying that the provision of more time to enable Managers to provide a robust transition plan makes sense.

The first-time adoption relief will not be sufficient for most CREs to enable them to meet the value chain reporting requirements. A significant investment in resources will be needed to assess the value chain especially given the current lack of data in the supply chain and the possibility of double counting of

emissions. We recommend allowing a phased in approach so that organisations can prioritise the reduction of emissions in areas where they have in the ability to influence and make changes. The Guidance does not allow for this.

As global investors, ACC support the convergence of global climate related disclosures and would support the XRB reviewing and aligning standards as global climate related disclosures evolve.

The staff guidance states: 'In drafting this guidance, we are seeking to illustrate how entities can approach the required disclosures in NZ CS 1. But an entity must exercise judgement, and first and foremost make its climate related disclosures in a way that meets the needs and expectations of its primary users.' We agree with what is intended but believe it leads to ambiguity with the guidance.

Specific questions:

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

[Note that this comment refers to MIS Managers] - If one of the standards objectives is to allow comparability between different investment offerings it is not clear how it will be achieved. We would suggest acknowledging in the standards that direct comparisons may not be possible given the limitations of data and differences in approaches (eg differing timeframes for short, medium and long term).

a) Do you think that the proposed disclosure requirements will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

XRB states: "We encourage preparers to start qualitatively in this area to avoid a (typically fruitless) pursuit of precise quantification." This statement recognises the ability to quantify future impacts is difficult for a range of reasons. However, in CS1 14 (C) "if quantitative information is unable to be disclosed an explanation of why is requested. "

We consider it would be helpful for the XRB to have greater regard to an appropriate balance between the practical achievability of disclosures, the value of disclosures to the end user, and the costs of preparing the disclosures.

According to 18 (e) the standard requires entities to prioritise climate-related risks relative to other risks. ACC consider that this could be phrased more clearly. First, it is important that all risks are given due consideration. Second, separating climate related risks and isolating their impact is a very difficult task.

Using long term forecasts for climate change can be expected to have significant errors. We suggest the reliability of the information should be better acknowledged in the guidelines. This is especially the case if the guidelines suggest primary users should use the information to support capital allocation decisions.

We feel that potential uncertainty surrounding disclosures by an MIS of current climate impacts including the financial impact (11a and b) should be better acknowledged. Isolating the direct and indirect impact of climate risks across investment portfolios, before the investee companies have

provided this information for themselves in a reliable manner, and then quantifying this with any degree of confidence will be challenging if not infeasible. ACC feel it is important to accommodate these data and knowledge challenges with a phase in period.

b) Do you consider that draft Aotearoa New Zealand Climate Standards are clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

The requirements should have greater regard to potential commercial sensitivities, particularly in respect of quantitative disclosures, financial impacts and forward-looking metrics as well as disclosing opportunities that have been identified. The guidelines could be specific in how preparers should address commercial sensitivities.

The guidance acknowledges where quantitative assessments are challenging or not yet feasible, but the framework nonetheless requires them. If something is not feasible it would be better to not report. Further the first-time adoption provision is considered insufficient to overcome many of the data and information barriers currently preventing reliable quantitative assessments for MIS Managers.

We believe the [draft guidance] disclosure for MIS Managers warrants inclusion in CS1 to prevent interpretation inconsistencies between the Standard and Guidance. MIS Managers, in particular the investment portfolios they manage, have characteristics which are different from non-MIS entities. Separating the requirements of MIS and non-MIS entities in the Standard will help provide fairer presentation and better comparability for MIS Managers. It will also help address inconsistencies between the disclosure in the Exposure Draft and the practical reality of the Guidance, as we have outlined above. At the very least, CS1 should highlight where the standards differ for MIS Managers.

c) Do you consider that draft Aotearoa New Zealand Climate Standards are comprehensive enough and achieve the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance? Please consider your answer to question 5 when responding to this question

We agree with the principles-based approach and believe prescriptiveness should be kept to a minimum especially while global reporting standards are still progressing.

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

Climate-Related Scenario (CS1 Appendix A)–

In the defined term what is a “plausible, **challenging** description”? Should it just be a plausible description?

If “Climate-related scenarios are not intended to be probabilistic or predictive, or identify the ‘most likely’ outcome(s) of climate change. They are intended to provide an opportunity for entities to develop their internal capacity to better understand and prepare for uncertain future impacts of climate change.” The definition supports our earlier comment the information is not adequate in isolation to support the allocation of capital.

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 agree with first-time adoption provisions, but believe a longer phased in approach over a 3-5 year period would be more practical, especially where value chains need to be considered, global guidance and data quality is still developing.

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

a) Are any additional first-time adoption provisions required? If so, please provide specific details regarding the adoption provision and the disclosure requirement to which it would apply, and the period of time it would apply for.

See above

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?

Staff guidance will support CRE's in making disclosures, but it is less clear it will support consistent application as qualitative and quantitative approaches can be applied. We agree with the pragmatic approach in a nascent area of reporting but expect consistency to take some time if at all.

In the MIS guidance, comments such as 10(b) - 'Scenario analysis... must be handled well if other aspects of an MIS Managers strategy disclosures are to be considered credible...' - would benefit from further clarification to be helpful. In this case, given the level of uncertainty inherent in all scenario analysis, under what circumstance is scenario analysis thought well-handled or otherwise?

a) Do you think the guidance is under, adequately or overly specific and granular?

For MIS Managers the task of separating climate risk and opportunities from all other market risks is challenging at best. How those isolated climate risk and opportunities will impact future performance is even more difficult as climate risk is only one of all the market risks that will impact performance. Tying climate risk to capital deployment as written is overly specific.

4.4 Targets Disclosures 20(d)

Suggesting an MIS manager consider targets for water usage, energy usage etc – appears to be branching into sustainability reporting which is out of the scope of this guidance.

b) Do you consider that anything in the guidance should be elevated into the standard? Should anything be demoted from the standard into guidance?

No

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?

Yes – allows continuity for those organisations already reporting on climate.