

Tuesday 27 September 2022

External Reporting Board  
PO Box 11250  
Manners Street Central  
Wellington 6142  
New Zealand

**By email:** [climate@xrb.govt.nz](mailto:climate@xrb.govt.nz)

### **XRB Climate Related Disclosures (CRD) Framework: Exposure Draft and New Draft Guidance**

This submission on the Aotearoa New Zealand Climate Standards, Climate-related Disclosure Framework Consultation Document, 28 July 2022 (the Consultation) and the NZ CS 1: Guidance for all sectors (All Sector Guidance) and NZ CS 1: Guidance for MIS Managers (MIS Guidance), is from the Financial Services Council of New Zealand Incorporated (FSC).

As the voice of the sector, the FSC is a non-profit member organisation with a vision to grow the financial confidence and wellbeing of New Zealanders. FSC members commit to delivering strong consumer outcomes from a professional and sustainable financial services sector. Our 106 members manage funds of more than \$95bn and pay out claims of \$2.8bn per year (life and health insurance). Members include the major insurers in life, health, disability and income insurance, fund managers, KiwiSaver, and workplace savings schemes (including restricted schemes), professional service providers, and technology providers to the financial services sector.

Our submission has been developed through consultation with FSC members and represents the views of our members and our industry. We acknowledge the time and input of our members in contributing to this submission.

The FSC's guiding vision is to grow the financial confidence and wellbeing of New Zealanders and we strongly support initiatives that align with our strategic intent and deliver:

- strong and sustainable customer outcomes
- sustainability of the financial services sector
- increasing professionalism and trust of the industry.

We welcome the opportunity to provide feedback on the exposure drafts of three proposed standards<sup>1</sup> that comprise the climate-related disclosure framework, collectively known as Aotearoa New Zealand Climate Standards (NZ CS) and the draft All Sector Guidance and draft Managed Investment Scheme (MIS) Guidance. The FSC is keen to ensure that the impacts of climate change are actively considered by our members, that climate is considered in business and investment decisions made across the industry and so our members can demonstrate accountability and foresight in relation to climate issues.

We thank the XRB for the considerable amount of thought and work that has gone into the NZ CS and the Consultation. We particularly appreciate the clear structure of the disclosure objectives and sub-disclosures, the All Sector Guidance, and the MIS Guidance.

---

<sup>1</sup> Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1), Aotearoa New Zealand Climate Standard 2: First-time Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2) and Aotearoa New Zealand Climate Standard 3: General Requirements for Climate-related Disclosures (NZ CS 3)

We welcome continued discussions and engagement.

I can be contacted on 021 0233 5414 or [richard.klipin@fsc.org.nz](mailto:richard.klipin@fsc.org.nz) or Carissa Perano, Head of Regulatory Affairs, at [carissa.perano@fsc.org.nz](mailto:carissa.perano@fsc.org.nz), to discuss any element of our submission.

Yours sincerely

Richard Klipin  
Chief Executive Officer  
Financial Services Council of New Zealand Incorporated

1. Do you think draft Aotearoa New Zealand Climate Standards will meet primary user needs? (Primary users are defined in the proposed standard as: existing and potential investors, lenders and other creditors)

We appreciate the helpful clarification in the definition of primary user, and we generally agree that the NZ CS provides useful information to primary users that would assist in their decision making, both quantitatively and qualitatively. We agree that it will meet primary user needs especially once the first time adoption provisions drop away in future years.

We would also expect that the disclosures become more mature over time. This will occur as organisations gain a better understanding of their risks and opportunities as well as awareness of global developments in this space. Increasing maturity of disclosures over time is also supported by the NZ CS being principle based and allowing for industry and organisation specific information based on materiality. XRB alignment with TCFD and ISSB frameworks allows for consistency globally so that primary users can review and compare easily information provided by organisations of interest. The NZ CS 1 requirements are aligned with the legislation and implement its intent.

However, we note that the definition of 'primary users' includes consumer groups who are distinct in nature and who would therefore have very distinct needs. It may be challenging for the NZ CS to ensure that all groups of 'primary users' will be provided with the disclosures that would be most useful to each respective group. Some investors will require the detailed technical information in the NZ CS and others will be looking for a higher level summary to compare MIS managers and funds. Guidance on what a typical MIS primary user looks like would be most useful. For consistency, such guidance could reference the Financial Markets Conduct Act 2013 (FMCA) material information definition that defines a 'reasonable person, who commonly invests in these types of products.' Collectively, the purpose of the NZ CS may be counter intuitive where the underlying target audience, namely the primary user, is different for each Climate Reporting Entity (CRE).

In addition, we note that at paragraph 27 of the draft NZ CS 3, a CRE must disclose all 'material information.' This is then dependent upon the needs of the primary user and the CRE's own circumstances. We suggest additional guidance could be provided on this point and further examples of what qualifies as 'material' for different types of CREs, for example, in the form of hypothetical or real case studies, or scenarios.

1.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.

We agree that the proposed disclosure requirements will provide information that is useful to primary users for decision making, especially (as noted above) once the first time adoption provisions drop away in future years. We would also hope that primary users provide consistent feedback to organisations or the XRB so that the disclosure can be adjusted to meet their needs.

For MIS, they are unlikely to have any material scope 1 or 2 emissions, and therefore primarily disclosures will be scope 3 emissions. It has been identified internationally that where data is available at all, there can be inconsistent approaches for measuring scope 3 emissions, and we note this can be difficult for fund managers to work with. Managers are reliant on data from investee companies, issuers and third party data providers and there are limitations with standards, consistency, and mandatory reporting as these develop around the globe. Communicating coverage gaps clearly and transparently (for example, lack of standards for reporting some products such as cash and derivatives) to a range of primary users will be key in ensuring that reporting is useful in decision making. Disclosures of data coverage are not specifically

discussed in the Guidance for MIS Managers s4.3.1 onwards, however specific guidance on disclosing and explaining data coverage would likely be helpful in improving the comparability of disclosures for users and would benefit both industry and primary users. They would also be useful in showing trends over time as data coverage would be expected to increase.

The expectation would be that the disclosure will mature over time, but the NZ CS will be a good framework to provide valuable and relevant information that should be disclosed. The NZ CS also states that if an organisation identifies any information that they feel is material to their primary users that they can include it. However, in such circumstances, organisations must take care to not obscure relevant information by inclusion of irrelevant or insignificant detailed information.

The primary users' understanding of the information provided in the disclosures will also mature over time. Therefore, we would think that primary users will seek more in depth information in the future. We also consider global development will drive this change as well.

1.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?

We agree the standards are clear and unambiguous, acknowledging that every possible situation cannot be covered in detail. The details provided in the NZ CS are sufficient for an organisation to define the areas that need attention. The NZ CS are written to the greatest extent possible to retain flexibility of industry specifics with a logical presentation structure, aligning with TCFD for consistency. The XRB has also provided links to other frameworks and examples which provide additional guidance to assist with developing the CRD, which are very useful for traceability.

However, we consider there to be an inherent tension between the comparability and consistency principles (which are aspects of the fair presentation requirement) and the recognition that CRD are a journey that CREs are on. This journey means that matters reported will, by their nature, evolve as CRE's capabilities and understanding mature. This in turn may impede CREs' ability to adhere to the comparability and consistency principles.

1.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 consider the balance to be appropriate. The Basis for Conclusions provides additional information assisting further with understanding and clarification on requirements and development of the NZ CS if needed.

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

#### **Primary Users**

We consider that the current definition of primary users is misaligned with other definitions in the FMCA (as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021) and for some FSC members this makes the CRD framework unclear from a compliance and implementation perspective. Other members are comfortable with the different definitions.

Guidance on what a typical MIS primary user looks like would be useful as they appear to not be captured. For example, fund managers generally seek CRD to understand long term impacts and sustainability of their investments, and this is then used to direct customers generally based on their social responsibility values or for customers to use for their personal investments. The FMCA material information definition<sup>2</sup> may be worth referencing as a starting point to ensure consistency. This definition states disclosure of material information should be aimed at a 'reasonable person, who commonly invests in these types of products'. We consider that without this additional guidance it will be difficult for each MIS provider to consistently apply the CRD framework. For example, in KiwiSaver there is almost every New Zealander investing with a range of views on climate change. This could result in KiwiSaver providers making complex disclosures to ensure they cater for primary users that have a very detailed understanding of climate issues at the detriment of those who do not.

Our members views on further defined terms are as follows:

- **Current financial impacts:** For comparability this should be defined to a period. For example, 'current' could refer to the period being reported on or based on the outputs of the CRE's most recent climate change scenario analysis.
- **Industry and Sector:** Are used throughout the MIS Guidance but that could be interpreted as the sectors or industries our members invest in, or the funds management sector or industry. We recommend further clarification.
- **Financial planning, capital deployment and funding processes relating to the scheme:** We query whether this is this relating to the scheme's capital deployment, namely portfolio construction, or the deployment by the manager as an entity to support the scheme. We recommend further clarification.  
For financial planning, as this term is generally understood to mean the advice process with a customer, we suggest using a different term such as 'investment strategy'.
- **Asset class or category:** Under 14(a) in relation to the reference to asset class or category, is this asset class as defined by the FMCA? Also, what does category refer to?
- **Materiality:** We also suggest that MIS Managers are referred to in the definition of Materiality in the NZ CS 3 paragraph 27. The term 'assessment of an entity's enterprise value' in relation to MIS Managers should refer instead to each fund.
- **Climate-related disclosures:** We query if the term 'useful to primary users' in the definition of CRD on page 14 of NZ CS 1 is subjective and therefore may be difficult to apply.

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 acknowledge that many aspects of the disclosures present challenges in terms of obtaining the required information from third parties, that may not be subject to the regime and therefore do not have the necessary knowledge or impetus to provide the required information. In these circumstances CREs will be forced into using higher levels of estimation, which may ultimately impact on the usefulness of the disclosures. As noted in response to Question 1a), guidance on data coverage disclosures for MIS managers would likely improve consistency between MIS managers and be useful to users.

---

<sup>2</sup> Section 59(1) of the Financial Markets Conduct Act 2013

For example, we note the BlackRock example of data coverage for international assets used in the XRB's deep dive presentation showed that, data coverage for most asset classes is above 90%. However, we understand that for other some international and domestic asset classes commonly used in MIS funds, physical climate data coverage is significantly lower, namely, NZ Equity (74%), Global Corporate Bonds (73%), and NZ Corporate Bonds (30%).

In addition, coverage for transition climate risk is broadly lower than physical climate risk. Emerging Markets Equity and Global Equity asset classes have > 95% coverage, whereas the coverage for New Zealand Equities is the lowest at 40%. Finally, there is currently no climate data coverage for Cash, New Zealand Government Bonds, and Global Government Bonds.

We also note the challenges that exist regarding accurate and useful reporting on investments, particularly where CREs do not hold investments directly, rather they invest in funds managed by a third party. In these instances, there are considerations regarding the accuracy and transparency of information provided by the fund managers, an entity's ability to verify that information, the use of different benchmarks or rating systems to assess the climate performance of these funds (noting that fund managers often assess at an ESG level, not just an environment or climate level) and the lack of globally agreed benchmarking for assessing the climate impacts of funds.

For CREs, a high degree of estimation is still likely to be necessary for Scope 3 Green House Gas (GHG) emissions disclosure from year two onwards, despite the first time adoption provision allowing such emissions not to be disclosed in the first year of reporting. The Partnership for Carbon Accounting Financials (PCAF) permits data with a high degree of estimation to be used when higher quality data is not available. We encourage setting primary user expectations at a reasonable level in that regard so that an expectation mismatch can be avoided.

In addition, we note the challenges that exist regarding calculating portfolio emissions, particularly those where there is no internationally recognised methodology for the industry to implement immediately, for example, health insurance, or those outside PCAF's current roadmap, for example travel insurance.

The feasibility to prepare the statement will be greatly dependent on the availability and accessibility of relevant emissions and financial data. Even first time adoption provisions would not diminish those concerns as for smaller company's emissions data may not be captured. Whilst it is possible to estimate emissions based on activities (using factors instead of measured emissions) we consider a goal of the disclosure would be to provide accurate insight to the primary users, who will then be able to compare meaningfully the CRE's disclosures.

Our members have also noted that they anticipate that they may have practical concerns in general, related to the disclosures required under Metrics and Targets (paras. 19 to 25 of NZ CS 1) since this is an area where best practice is still evolving. Our members who already engage in TCFD climate-related reporting at a Group level over previous years (for example the overseas reinsurers referenced below), from their experience anticipate that the cross industry metrics required at paragraphs 21(c) transition risks, and 21(d) physical risks, of NZ CS 1 will be problematic as there is currently no clear framework or data. Therefore, any reporting in these areas would be high level and not helpful to primary users. We suggest more flexibility for CREs to choose which metrics to use in their climate statement.

#### **Practical concerns for some reinsurance members**

Some of our reinsurer members have very limited primary users and may also be part of a global and diversified insurance business with a complex corporate structure. In such circumstances, the ultimate

parent company (which is not an incorporated New Zealand entity) does engage in CRDs at a Group level (which are also aligned to the TCFD's recommendations). We note that 'Group' in this context, does not fall under the 'group' scenario referenced at section 461X of the FMCA. Rather, our members understand that climate statements for overseas CREs must be prepared for the New Zealand business as if that business were conducted by a company formed and registered in New Zealand (section 461Y).

Therefore, these members have real practical concerns around requiring the New Zealand part of the global business to make CRDs at the New Zealand entity level as this will cause duplication in work and an unnecessary and significant burden on these CREs' resources. We encourage consideration of allowing climate change risks and opportunities to be assessed at a Group level, informed by materiality. For global reinsurers, group level disclosures are important and yield more insights, given the nature of their business, where risks assumed from local economies are diversified across the globe. Disclosures at a local New Zealand entity level would therefore not present an accurate picture and therefore would not be in the best interests of primary users.

In these limited circumstances, we suggest that NZ CS 1 be amended to include under each disclosure category (Governance, Strategy, Risk Management, Metrics and Targets) a clause stating that an overseas CRE may rely upon CRDs made at its Group level if such disclosures also meet the requirements of the New Zealand NZ CS and the CRE is able to provide rationale and reasons to evidence why this should be the case.

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

We are supportive of the first time adoption provisions with respect to Scope 3 emissions. This relief will allow CREs to provide information already being captured under Scope 3 whilst allowing time to work with suppliers, and across the value chain, to obtain less readily available information. The practical experience of working with CREs shows that Scope 3 GHG emissions are very challenging to measure, so moving that disclosure into the first time adoption provisions in the NZ CS recognises that difficulty appropriately. This allows CREs time to collect more accurate data and permits a better understanding, leading to the disclosure of relevant metrics.

However, the first time adoption provision is only for one year and this may not allow sufficient time to address the issues raised in question 3 above relating to investments.

We also agree with the first and second year adoption provision for comparative information as it makes logical sense if an organisation discloses these kinds of metrics for the first time. The adoption provision on Strategy will allow CREs to further define their information and actions required before publicly disclosing on those, considering the principles noted in NZ CS 3.

#### 4.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.

Our members understanding is that the first time adoption provisions of NZ CS 2 will apply to the first reporting year on or after 1 January 2023. As GHG metrics and methodologies are continuously evolving, we are concerned with the impact this will have upon compliance with the CRD Framework should a CRE change its methodology in later years after 1 January 2023. For instance, data disclosed and determined under a new methodology, will no longer be comparable to data disclosed under the older methodology in

previous years. Therefore, we query whether CREs will need to go back and realign their historical disclosures.

Regarding first time adoption provision 6: Comparative for metrics (paras. 20 – 22 of NZ CS 2), we suggest that these first time adoption provisions have an additional exemption that applies to circumstances where methodologies have changed. We consider this should occur where a CRE has made a material change in methodologies and segmentations, such CRE will be exempt from disclosing at least two years of comparative information (since there will be none in these circumstances) if the CRE has instead made reasonable efforts to provide a well explained analysis of trends and each metric disclosed in consideration of the old and new methodology.

Currently the Consistency section in NZ CS 3 (paragraph 41) discusses instances where an CRE changes what it discloses or how it presents its information. We suggest this could also be expanded to discuss the treatment of methodology changes. In addition, we suggest consideration is given to 'new' metrics which will be reported on in the future but are not currently measured or reported on. We suggest a specific exemption is provided for 'new' metrics to allow CREs to report on a new metric, without providing comparative data, in cases where there are no comparative figures available and reasonable efforts have been made to find them. This exemption would be applicable once the first time adoption provisions had been used and is intended to allow CREs to report timely information, instead of waiting until two years of comparative information is available.

**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?**

We welcome comprehensive guidance to support CREs as well as links to other relevant material. We found the use of tables and examples particularly helpful. We also appreciate the use of guidance on 'how to get going' and then on what 'mature' disclosures might look like (for example see section 2.5.4). However, we strongly encourage the XRB to provide as much guidance as practicable in the document, employing tables, multiple examples and exemplars, where possible.

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

The guidance and linked documents are considered very helpful and detailed. The amount of information produced will be significant and we anticipate many MIS providers may choose to provide additional summaries for primary users for easy reference.

The guidance and exposure drafts are consistent and compatible, therefore easy to follow in conjunction with each other. Separate guidance specifically for MIS Managers is very useful due to the specific requirement to disclose on their registered investment schemes under their management. This allows specific points for MIS Managers to be addressed there rather having that information in other documentation that is not relevant to other CREs.

However, we note that the guidance for disclosure 20(b), Table 14, provides potential metrics for a generic category of 'insurance'. The guidance provided is more relevant to general insurers than life and health insurers. It would be useful to split this into separate guidance for general and life/health insurers. Furthermore, a CRE may still be clarifying which relevant industry metrics to use for management purposes (noting it would be unrealistic for a CRE to report all potential metrics relevant to their business) so the guidance could specify what a reasonable number of disclosures could be.



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

We refer to our response to Question 5.a).

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 agree with the flexibility provided by the proposed location of disclosures requirements as it provides flexibility for CREs whilst ensuring that the disclosures remain accessible to primary users.

### **Other Feedback**

We consider that the XRB has done well in considering the feedback from previous consultations and keeping the standards aligned with global developments. We also appreciate the deep dive sessions that the XRB has set up to allow further clarification and additional feedback as part of finalising the standards.

We encourage consideration of the provision of additional documentation that provides specific questions that can be asked for a gap analysis process.

Given the ISSB standards have not yet been finalised it would be helpful to understand what options are available under the legislation to further align the NZ CS with the ISSB Standards when they are finalised.

### **General Feedback on NZ CS 1: Guidance for all sectors**

We consider the guidance document to be overly content heavy and the various links and references to other documents can be overwhelming. We suggest a simplification of the guidance, if possible. However, we do note that there are no practical examples to test against the guidance and therefore the usefulness of the guidance is difficult to determine at this time.

Some of our members do make CRDs at a Group level and submit that it is more appropriate and in the best interests of their limited primary users to rely on reporting at a Group level. If the relief suggested above at Question 3, or any other similar relief is not possible, we strongly encourage clear guidance for CREs in these circumstances.

### **General Feedback on NZ CS 1: Guidance for MIS Managers**

- We suggest the disclosure in clause 11(a) could be a thematic discussion and not at a discrete event level (for example an extreme weather event) for MIS managers with large portfolios. An ability to size this disclosure for the funds under management would be useful, namely themes rather than discrete events.
- On page 20, in the fifth paragraph, can clarification please be provided on the scenario analysis at sector level, namely is it intended to be MIS Managers sector or investee company sector.
- We query whether it is possible at page 27 to have a similar table to Table 2 for the international context.

- We note the two definitions on page 34 and query whether it is possible to have a definitions section for this guide for ease of reference. Such a section could also define materiality for Managers and a definition of 'just transition' would be considered useful also.
- We would appreciate some guidance on the practical application of the value chain definition for MIS Managers in relation to its investee companies. MIS Managers will be dependent on data from the investee companies and may not have information as to what is excluded from that data.