

# Submission on *Climate Disclosure Standards*

## Organisation

<b>Organisation</b>	Institute of Finance Professionals New Zealand Inc (INFINZ)
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## Responses to discussion document questions

### Introduction

INFINZ is pleased to submit its comments on the draft sections on Strategy, Metrics and Targets as part of the new NZ CS standards.

We commend the XRB on a vastly improved draft and it is great to read the whole set of standards together. The comparison tables to TCFD and ISSB were extremely useful, although a comparison to the European Union policies would have been very interesting and insightful. The basis for conclusions provided great context and alleviated some concerns that arose while reading the standard.

In preparing this submission we have first answered the consultation questions and then given detailed comments for each of the Climate Standards below.

1

#### **Do you think the draft Aotearoa New Zealand Climate Standards will meet primary user needs?**

Mostly yes, but double materiality would make the disclosures much more useful to a wider range of primary users, which are currently too narrowly defined. For more details please see the comments to each part of the standards in the next sections.

**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.**

Yes certainly, many possible improvements and concerns are outlined in the rest of this submission.

**b. Do you consider that the 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?**

Please see comments below.

**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.**

Please see comments below.

2

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

Please see comments below, but in summary:

- Carbon intensity needs to be defined more clearly for comparability and consistency.
- “aligned with science” needs to be defined if it is to be required, otherwise it is much too vague. The XRB Board’s statement that it decided not to define the term because “science may change rapidly” is not a sufficient answer.
- Materiality definition and reasoning is not yet sound
- The primary users should be broader and include regulators and wider stakeholder groups, such as communities where entities operate, should also be a target audience for these disclosures.

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.**

Managed Investment Schemes (MIS) are going to have an exceptionally more difficult journey as these standards were not really written with them in focus. The model employed by the European Union of separating SFDR and CSRD, avoids this issue. More comments on this in the section referring to the guidance for MIS.

4

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

Yes.

- 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.**

No.

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?**

Generally, both guidance documents are useful to a certain extent but both are lacking in detail, for example the guidance for MIS should include reference to methodologies such as that of the Partnership for Carbon Accounting Financials Global GHG accounting and reporting standard.

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

Under.

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

Yes, several components, for details please see comments on the specific standards below

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, outside of the paragraphs on cross-referencing which we consider are not user-friendly. Allowing cross-referencing approach could easily be used to make it harder to understand the already complex disclosures.

### **Detailed comments on each the standards**

#### **CS1**

- *Paragraph 11:* It is not fully clear that this reflects impact on the entity rather than impact on the planet. It would be worth making this clearer.
- *Paragraph 12:* This paragraph on scenario analysis is quite general. We know the code is principle based, but this principle is very vague. Should the scenarios refer to specific sources of scenarios (i.e. IPCC as used by MfE, Greening the Financial System or IEA scenarios) so that the scenarios are comparable.
  - IPCC provides Fifth Coupled Model Intercomparison Project (CMIP5) simulations utilized in the Climate Change Projections for New Zealand Report released by the Ministry for the Environment in 2018. The IPCC has now released a more accurate version named CIMP6. This would enable comparability and consistency principles described in *Table 1 CS3*. It is also not clear what is intended by “and a third climate-related scenario”. It is unclear whether this meant to be a scenario with a greater temperature change than 3 degrees or something else.
- *Paragraph 14:* Some clarification may be needed around current vs. anticipated impacts as one could argue that using a forward-looking scenario to assess climate impacts addresses both current and anticipated impacts.
- *Paragraph 20 (b):* There should be a minimum set of industry metrics required, as in the ISSB standards, unless deemed immaterial with reasoning. Disclosing entities can disclose additional metrics if they deem them important.
  - The reasoning for not requiring industry specific metrics given BC 38 and 39 are inadequate.
  - While the XRB states that it will watch development of industry specific metrics and consider whether industry-specific metrics should be included, our view is that a set of minimum industry specific metrics could

easily be adopted now from the work by TCFD and ISSB.

- *Paragraph 21 (a):* We agree that emissions outside of carbon need to be disclosed in Co2 equivalents, but the conversion factor (global warming potential difference) used, and its source also need to be disclosed.
- *Paragraph 21 (b):* When referring to “GHG emissions intensity”, the type of intensity should be defined.
  - GHG Intensity is essentially a ratio of emissions to a financial metric, measuring emission efficiency. However, to calculate this we could use scope 1, 2 and/or 3 emissions in the numerator and several possible metrics in the denominator, such as Revenues, Total Asset Value, Capital Expenditure, etc.

The standard should define, which intensity, at a minimum, should be disclosed, for the sake of comparability and transparency. Disclosing entities could then disclose more variations, should they choose, if they are relevant to their business.

Using different emission intensity calculations results in vastly different values and interpretations, conflicting directly with the comparability principles in *Table 1 of CS3*.
- *Paragraph 21 (c):* If the amount of assets (which needs to be defined) or business activities at risk is disclosed, the total amount of assets (given in financial statements) or business activities should also be disclosed, so that primary users can calculate percentages. This is particularly useful for the sake of comparability.
- *Paragraph 21 (g):* The disclosure on the internal emission price is great, but it should also be disclosed how this is used. If it is just a price number without an explanation of how that is used, what is the use of that information for primary users?
  - ISSB also requires this.
- Paragraph 21(h): should be amended to state “expressed as a percentage, weighting, description or amount of **overall remuneration**” (addition in bold).
- *Paragraph 22 (c):* We recommend that the base year be defined for sake of comparability and consistency (CS3).
- *Paragraph 22 (d):* descriptive progress reporting is important, but so are the metrics used to measure this progress. We suggest the standard requires metrics, some may already be required under the standards, but could allow for a first time adoption provision for one year. Leaving this for guidance or future updates is not in line with international developments, i.e. ISSB.
- *Paragraph 22 (e):*
  - Offsets can be a legitimate part of a decarbonization strategy, for hard to abate emissions, i.e. air travel, and for such emissions offsets and their source should be disclosed.

- It is important that emissions and emissions intensity targets are [both?] set, not one OR the other.  
The intensity can vary significantly due to the type of business and the type of operations it engages in, as the denominator is significantly affected by this (see comment on *paragraph 21 (b)* above).  
Further, intensity reductions are not necessarily due to a decrease in climate impacts and risks as the denominator of the ratio could be changing rather than emissions.
- “Aligned with science” is very vague, what does this really mean?  
This is also not defined in the defined terms in appendix A, the XRB says it has not defined this due to the fast-moving interpretation of what “aligned with science” means (BC46). How can entities disclose when this phrase cannot even be defined?  
This is better defined by using the ISSB standards.  
Targets should be aligned with the Science-based target initiative or another appropriate framework for defining “aligned with science”.
- Are the standards only asking for emission targets (rather than targets on other cross industry metrics)?

- *Appendix A: primary users* do not include regulators or other stakeholders, it should be explained why that is, as these are arguably primary users.
- *BC 47*: This is a great decision as New Zealand has been relying on offsets too much in many policies and we are glad that is not the case here.
- *BC 48*: Emissions factors and their sources are important, as this hugely affects how emissions of an entity are estimated. This is an important assumption or part of methodology which should be disclosed under CS3 and is also required in the ISSB draft standards.

## CS2

- *First-time adoption provision 2*: Why is there a need for a provision on time horizons? This should not be difficult to disclose. We agree with adoption provision 3, as indeed financial impact will be hard to estimate, although to make a judgement on when risks might materialize, at least within a range, should be an easier first step.  
There is no reasoning for provision 2  
Understanding the time frames being considered by disclosing entities would be very useful for primary users.

## CS3

- *Table 2 Consistency*: When methodologies and/or circumstances change, that should be explained, but disclosing entities should continue to disclose the value under both the old methodology and the new methodology, at least for some time after the change, for the sake of consistency and its implications.
  - In *BC 40* it is mentioned that material errors could be restated, however it is troubling that a valid cause for such errors is “fraud”. It is important that errors are restated, but with explanation and only where it is in fact an error and not a change in methodology.

- We disagree with the argument made in *BC41*, as an entity's progress on climate risk and opportunities will be difficult to judge without consistent metrics across time.
- *Cross-referencing*: This provision seems unnecessary; all climate disclosure information should be in one place for the sake of usability avoiding the process of locating and reading through multiple documents.
- *Materiality*: Allowing entities to avoid certain disclosures within the standards, if they deem that information immaterial could present a risk to the quality of disclosures. As it stands these standards would allow reporting entities to avoid all the disclosures if they judged climate change immaterial, defeating the purpose of these standards – noting in reality this would be a difficult position for Directors to take.
  - *Paragraph 37* initially reads well, but once we get to the basis for conclusions many issues arise:
    - *BC31 and 32* are somewhat flawed arguments for single materiality being as good as double materiality. The 'circling back' argument does not mean double materiality should not be considered. Why would an entity disclose in such a way, when it is incentivised to not disclose more risks than it needs to under these standards. Either the standards are based on single or double materiality, it cannot be both.
    - *BC33* if the fundamental concept of materiality is whether the information is likely to influence primary users' decision making then the standard should be based on double materiality. At least some primary users are not only concerned about the impact of climate change on their financial performance, but also with their impact on climate change.
    - *BC35* Climate change is about more than just carbon emissions and using a double materiality definition across the standard would eliminate the need for these arguments of why the standard in its current form is just as good as a double materiality standard.
    - *BC37* We don't agree that removing this part of the definition is a good idea. Encouraging long term thinking is never a bad thing in the context of climate change and enterprise value calculations/modelling often do not incorporate true long term considerations, but rather 5, maybe 10, year horizons at most.
- *Paragraph 50 (a) (iii)*: The emission reduction pathways should also describe what types of sequestration or offsets are being employed to enable better disclosure and comparability across businesses.