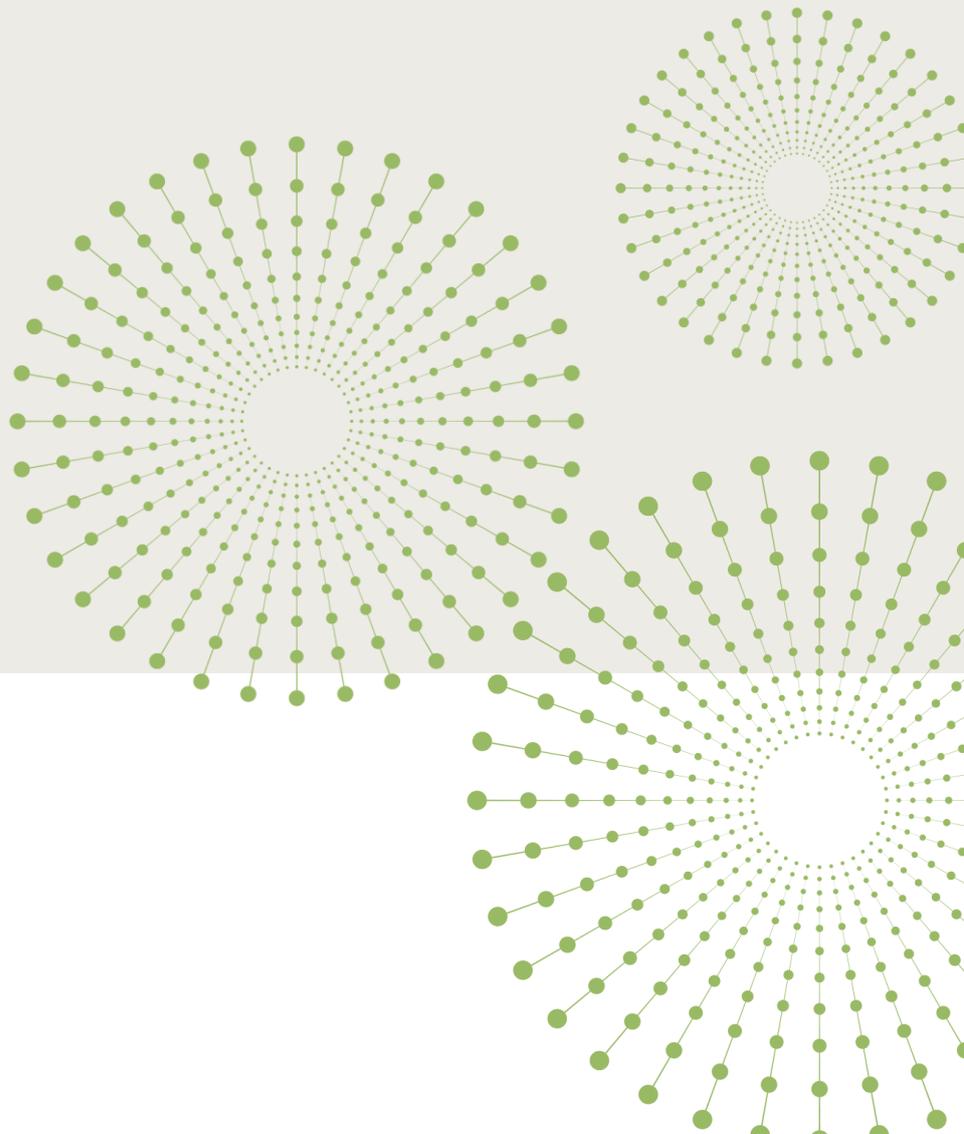


# Aotearoa New Zealand Climate Standard 2

## Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2)

**Applies from 1 January 2023**



Issued December 2022





*Te Kāwai Ārahi Pūrongo Mōwaho*  
**EXTERNAL REPORTING BOARD**

## **Aotearoa New Zealand Climate Standard 2**

### **Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2)**

**Issued 14 December 2022**

This Standard was issued on 14 December 2022 by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) and section 28(2) of the Financial Reporting Act 2013 takes effect on 1 January 2023.

Reporting entities that are subject to this Standard are required to apply it in accordance with the application date in paragraph B1 of Appendix B.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of the New Zealand Government enacting legislation to require certain entities to prepare climate-related disclosures.

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NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* is set out in paragraphs 1 to 23 and Appendices A and B. All the paragraphs, including Appendices A and B, have equal authority. Terms defined in Appendix A are in *italics* the first time that they appear in this Standard. This Standard should be read in the context of its objective, the Basis for Conclusions, NZ CS 1 *Climate-related Disclosures* and NZ CS 3 *General Requirements for Climate-related Disclosures*.

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The climate-related disclosure framework comprises three Aotearoa New Zealand Climate Standards that have been designed as a package. It is important that they are read in context of each other.

- NZ CS 1 *Climate-related Disclosures* contains the climate-related disclosure requirements for each of the four thematic areas (Governance, Strategy, Risk Management and Metrics and Targets) and the assurance requirements for greenhouse gas emissions disclosures.
- NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* provides optional adoption provisions.
- NZ CS 3 *General Requirements for Climate-related Disclosures* contains the principles, the underlying concepts such as materiality, and the general requirements.

The need for materiality judgements is pervasive in the preparation and presentation of all disclosure requirements in Aotearoa New Zealand Climate Standards.

## Objective

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1. In recognition that it may take time to develop the capability to produce high-quality climate-related disclosures, and that some disclosure requirements, by their nature, may require an exemption, this Standard provides a limited number of adoption provisions from the disclosure requirements in *Aotearoa New Zealand Climate Standards*.
2. The ultimate aim of Aotearoa New Zealand Climate Standards is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

## Scope

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3. This Standard applies to entities that are required by the Financial Markets Conduct Act 2013 to prepare *climate statements* or *group climate statements* that comply with the *climate-related disclosure framework*.
4. Any entity that elects to or is otherwise directed to prepare climate statements or group climate statements is encouraged to apply all the requirements of Aotearoa New Zealand Climate Standards.<sup>1</sup>
5. This Standard does not apply to an *interim period*.
6. An entity may elect to use one or more of the adoption provisions contained in this Standard. Some of the adoption provisions exempt certain disclosures whereas other adoption provisions require alternative information to be disclosed.
7. Adoption provisions 1 to 4 are only available to an entity when preparing and presenting climate statements or group climate statements for its *first reporting period*.
8. Adoption provisions 5 to 7 are available to an entity when preparing and presenting climate statements or group climate statements for its first reporting period, *second reporting period* or *third reporting period*.
9. An entity that has prepared and presented climate statements or group climate statements in a previous reporting period, but not in its immediately preceding reporting period, is permitted by this Standard to use adoption provisions 6 and 7 again. This paragraph applies despite paragraph 8.

## Adoption provisions

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### Adoption provision 1: Current financial impacts

10. Paragraph 12(b) of NZ CS 1 *Climate-related Disclosures* requires the following disclosure:
 

the current financial impacts of its physical and transition impacts identified in paragraph 12(a).

This Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
11. If an entity elects to use the adoption provision in paragraph 10, this Standard also provides an exemption from paragraph 12(c) of NZ CS 1:
 

if the entity is unable to disclose quantitative information for paragraph 12(b), an explanation of why that is the case.

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<sup>1</sup> For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

## Adoption provision 2: Anticipated financial impacts

12. Paragraph 15(b) of NZ CS 1 requires the following disclosure:
- the anticipated financial impacts of climate-related risks and opportunities reasonably expected by the entity.
- This Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
13. If an entity elects to use the adoption provision in paragraph 12, this Standard also provides an exemption from paragraph 15(c) of NZ CS 1:
- a description of the time horizons over which the anticipated financial impacts of climate-related risks and opportunities could reasonably be expected to occur.
14. If an entity elects to use the adoption provision in paragraph 12, this Standard also provides an exemption from paragraph 15(d) of NZ CS 1:
- if the entity is unable to disclose quantitative information for paragraph 15(b), an explanation of why that is the case.

## Adoption provision 3: Transition planning

15. Paragraphs 16(b) and 16(c) of NZ CS 1 require the following disclosure:
- the transition plan aspects of its strategy, including how its business model and strategy might change to address its climate-related risks and opportunities; and
  - the extent to which transition plan aspects of its strategy are aligned with its internal capital deployment and funding decision-making processes.
- This Standard provides an exemption from these disclosure requirements in an entity's first reporting period.
16. If an entity elects to use the adoption provision in paragraph 15, it must provide a description of its progress towards developing the transition plan aspects of its strategy, in its first reporting period.

## Adoption provision 4: Scope 3 GHG emissions

17. Paragraph 22(a)(iii) of NZ CS 1 requires the following disclosure:
- greenhouse gas (GHG) emissions: gross emissions in metric tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) classified as scope 3.
- Although disclosure of *scope 3 greenhouse gas (GHG)* emissions is encouraged for all entities on adoption of Aotearoa New Zealand Climate Standards, this Standard provides an exemption from this disclosure requirement in an entity's first reporting period. An entity may choose to apply the adoption provision in this paragraph to all its scope 3 GHG emissions sources, or a selected subset of its scope 3 GHG emissions sources. If an entity discloses a selected subset of its scope 3 GHG emission sources, it must identify which sources it has not disclosed.

## Adoption provision 5: Comparatives for Scope 3 GHG emissions

18. Paragraph 40 of NZ CS 3 *General Requirements for Climate-related Disclosures* requires the following disclosure:
- For each metric disclosed in the current reporting period an entity must disclose comparative information for the immediately preceding two reporting periods.
- If an entity elects to use the adoption provision in paragraph 17, this Standard provides an exemption from providing comparative information for scope 3 GHG emissions in an entity's second reporting period.
19. If an entity elects to use the adoption provision in paragraph 17, this Standard permits an entity to provide one year of comparative information for scope 3 GHG emissions in an entity's third reporting period.

### **Adoption provision 6: Comparatives for metrics**

20. Paragraph 40 of NZ CS 3 requires the following disclosure:
- For each metric disclosed in the current reporting period an entity must disclose comparative information for the immediately preceding two reporting periods.
- This Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
21. In an entity's second reporting period, this Standard permits an entity to provide one year of comparative information for each metric.

### **Adoption provision 7: Analysis of trends**

22. Paragraph 42 of NZ CS 3 requires the following disclosure:
- An entity must disclose an analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period.
- This Standard provides an exemption from this disclosure requirement in an entity's first and second reporting period.

### **Use of adoption provisions**

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23. If an entity elects to use any of the adoption provisions in this Standard, it must include a description of the adoption provisions used in conjunction with its statement of compliance with Aotearoa New Zealand Climate Standards (see NZ CS 3, paragraph 55).

## Appendix A

### Defined terms

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This appendix is an integral part of NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* and has the same authority as the other parts of this Standard. Some defined terms are used in at least one other Aotearoa New Zealand Climate Standard, always with the same meaning.

<b>Aotearoa New Zealand Climate Standards</b>	Standards issued by the External Reporting Board that comprise the climate-related disclosure framework.
<b>climate-related disclosure framework</b>	Climate-related disclosure framework has the meaning set out in section 9AA of the Financial Reporting Act 2013.
<b>climate statements</b>	Climate statements has the meaning set out in section 5 of the Financial Reporting Act 2013.
<b>first reporting period</b>	The first reporting period in which an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards.
<b>GHG</b>	See greenhouse gas.
<b>greenhouse gas</b>	The greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO <sub>2</sub> ); methane (CH <sub>4</sub> ), nitrous oxide (N <sub>2</sub> O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF <sub>3</sub> ), perfluorocarbons (PFCs), and sulphur hexafluoride (SF <sub>6</sub> ).
<b>group climate statements</b>	Group climate statements has the meaning set out in section 5 of the Financial Reporting Act 2013.
<b>interim period</b>	A financial reporting period shorter than a full financial year.
<b>scope 3</b>	Other indirect GHG emissions not covered in scope 2 that occur in the value chain of the reporting entity, including upstream and downstream GHG emissions. Scope 3 categories are purchased goods and services, capital goods, fuel-related and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold products, downstream leased assets, franchises, and investments.
<b>second reporting period</b>	The reporting period immediately following an entity's first reporting period in which an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards.
<b>third reporting period</b>	The reporting period immediately following an entity's second reporting period in which an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards.

## **Appendix B**

### **Application date**

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This appendix is an integral part of NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* and has the same authority as the other parts of this Standard.

#### **Application date**

- B1. An entity must apply this Standard for annual reporting periods beginning on or after 1 January 2023.

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## **Basis for Conclusions on NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards***

This Basis for Conclusions accompanies, but is not part of, NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards*.

### **Introduction**

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- BC1. This Basis for Conclusions summarises the XRB Board's considerations in developing NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* as part of the climate-related disclosure framework for Aotearoa New Zealand.
- BC2. The Basis for Conclusions accompanying NZ CS 1 *Climate-related Disclosures* contains further information on the development of the climate-related disclosure framework, including an explanation of the multi-phase consultation process undertaken by the XRB.

### **Reasons for issuing this Standard**

- BC3. The XRB Board became aware through its consultation process that the depth of understanding of climate-related risks and opportunities varied substantially across entities in the climate reporting regime. Furthermore, capability to enable high-quality climate-related disclosures will take time to develop and evolve. Rather than delay the application of Aotearoa New Zealand Climate Standards, the XRB Board decided to issue a separate Standard containing adoption provisions to assist entities while they are developing that capability. The XRB Board noted that those entities that are more advanced in their climate reporting journey may choose not to apply any of the adoption provisions in this Standard.
- BC4. The XRB Board also decided that some disclosure requirements, by their nature, require an exemption. For example, an exemption from providing comparative information for an entity in the early years of reporting when that information has not previously been compiled.

### **Consultation**

- BC5. As discussed in the Basis for Conclusions accompanying NZ CS 1, the XRB Board issued ED NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards* in July 2022.
- BC6. The XRB Board received 56 formal submissions in response to the three July 2022 exposure drafts, being ED NZ CS 1 *Climate-related Disclosures*, ED NZ CS 2 and ED NZ CS 3 *General Requirements for Climate-related Disclosures*. Comments were received by respondents on the proposed adoption provisions in ED NZ CS 2. This Basis for Conclusions includes the reasons for accepting particular views and rejecting others.

### **Scope**

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- BC7. The XRB Board received feedback on ED NZ CS 2 that it should clarify whether any adoption provisions are available for use by an entity that had previously prepared and presented climate-related disclosures in accordance with Aotearoa New Zealand Climate Standards but had not done so for several reporting periods. This situation could arise where an entity no longer has a legislative requirement to prepare climate statements because it is no longer large, but subsequently becomes large again in a future reporting period.
- BC8. The XRB Board agreed that it should be clear in this Standard when an entity is able to use the adoption provisions. The XRB Board's view expressed in ED NZ CS 2 was that the adoption provisions should only be available to entities the first time an entity adopts Aotearoa New Zealand Climate Standards and that an entity should not be able to take advantage of any adoption provisions in future reporting period(s). However, on reflection, the XRB Board decided that the two types of adoption provisions proposed in ED NZ CS 2 were fundamentally different in nature. These were Type A: those that applied to disclosure requirements representing more complicated areas of disclosure such as the disclosure of scope 3 GHG

emissions, and Type B: those that, by their nature, required an exemption, such as, the disclosure of comparative information.

- BC9. The XRB Board concluded that an entity should be permitted to use the Type A provisions only once but should be permitted to use the Type B provisions more than once if necessary. This means that, for example, if an entity no longer meets the criteria of being a climate reporting entity by dropping under the size threshold, but then, after an intervening period of not meeting the criteria, becomes 'large' again, that entity can avail itself of adoption provisions 6 and 7. Paragraphs 7 to 9 of this Standard have been included to reflect this decision.
- BC10. The XRB Board also decided to remove 'First-time' from the title of this Standard so that its application was clearer.

## **Governance and Risk Management**

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- BC11. The XRB Board sought feedback on its preliminary view that adoption provisions were not required for the Governance and Risk Management sections of NZ CS 1 as part of its October 2021 Governance and Risk Management consultation (GRM consultation). Most respondents agreed with the XRB Board's view that adoption provisions were unnecessary for the Governance and Risk Management disclosures. Of those respondents advocating for adoption provisions, the primary arguments related to recognising that many entities are in the early stages of developing their capability in relation to climate-related reporting, and that it can be a large task for entities to implement climate risk frameworks.
- BC12. The XRB Board acknowledged the feedback received but noted that the intent of both the Governance and Risk Management sections of NZ CS 1 is for an entity to disclose the extent of its activities, not to require a certain level of performance. An entity will be able to meet the Governance and Risk Management disclosures by describing its current processes and activities. The XRB Board affirmed its preliminary view and did not propose any adoption provisions for the Governance and Risk Management disclosures in ED NZ CS 2. Responses to ED NZ CS 2 indicated support for this decision.

## **Strategy (Adoption provisions 1 to 3)**

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- BC13. In March 2022, the XRB Board published the Strategy, and Metrics and Targets Consultation Document (SMT consultation). In the SMT consultation, the XRB Board requested feedback on its proposed Strategy adoption provisions, covering current and anticipated financial impacts disclosures, and transition planning disclosures.
- BC14. The XRB Board received generally positive feedback on the proposed adoption provisions. Many acknowledged that the underlying disclosures required difficult underlying analysis and planning, and that the proposed adoption provisions provided some relief. Other feedback noted that, in the context of climate change, entities need to have incentives to start dealing with these more difficult issues and that primary users are seeking information on these matters now. These respondents argued in favour of no adoption provisions.
- BC15. Given that the analytical methods currently available to undertake analysis on financial impacts are relatively novel to entities, the XRB Board decided to provide adoption provisions for financial impact disclosures. The XRB Board recognises that undertaking this type of analysis is challenging, involves grappling with a high degree of uncertainty, and, in many instances, longer time horizons than those considered in other contexts such as financial reporting.
- BC16. The XRB Board decided to provide an adoption provision for transition planning to give entities time to develop such plans and to ensure entities properly scope and embed transition planning as a core aspect of strategy. Unlike other adoption provisions, the XRB Board decided that entities must disclose their progress towards developing a transition plan if they take advantage of this adoption provision. This is due to both strong primary user demand for this information and the important role of transition planning in an entity's ability to build resilience to climate change and in communicating specific actions they are taking to reduce emissions.

- BC17. In the SMT consultation, the XRB Board carefully considered, but decided against, proposing adoption provisions for Strategy disclosures relating to scenario analysis. Scenario analysis plays a core role in the broader context of NZ CS 1. Scenario analysis should precede the calculation of financial impacts, as well as transition planning aspects of an entity's strategy. This is because scenario analysis provides entities with systemic insights into how future climate-related risks and opportunities might affect their business models and strategies. Furthermore, if adoption provisions for scenario analysis were included, the XRB Board considered that disclosures for current and anticipated financial impacts, and transition planning would subsequently need to be further delayed. Such delays would create broader risks for the financial system if this information was not disclosed until 2025–2030, in the context of New Zealand's 2030 emissions reduction target and broader climate change objectives.
- BC18. Although some respondents to the SMT consultation requested relief from scenario analysis, many respondents (including comments made during informal consultation), observed that it is important that entities start now on this work. The XRB Board therefore decided to confirm its original decision not to provide adoption provisions for scenario analysis in NZ CS 2. The XRB Board's parallel encouragement of sector-level collaboration on scenario analysis is also expected to reduce the resourcing requirements and cost burden for a significant number of entities.

## **Metrics and Targets (Adoption provision 4)**

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- BC19. The XRB Board did not propose any adoption provisions for Metrics and Targets in the SMT consultation, except for the adoption provision which exempted the disclosure of comparative information for metrics.
- BC20. While respondents agreed with the requirement to disclose scope 3 greenhouse gas (GHG) emissions, many respondents highlighted challenges with measuring these emissions. Particular areas of concern were financed and underwritten emissions, including concerns raised about the lack of methods for calculating scope 3 emissions, including for general insurance underwriting, health and travel insurance, derivatives and sovereign bonds. Concerns were also raised about the effort required, and ability to, identify and collate data for other categories of financed emissions. Respondents requested that the XRB Board consider providing some adoption relief from the disclosure of scope 3 GHG emissions.
- BC21. The XRB Board considered options for providing relief from the disclosure of scope 3 GHG emissions, including whether to provide an exemption from disclosing certain scope 3 categories in the first year of reporting (for example, category 15 financed emissions). The XRB Board decided, on balance, to propose in ED NZ CS 2 an exemption from disclosing all scope 3 GHG emissions in an entity's first reporting period. Following feedback received on ED NZ CS 2 the XRB Board clarified in this Standard, that an entity may choose to apply the adoption provision to all its scope 3 GHG emissions sources, or a selected subset of its scope 3 GHG emissions sources. The XRB Board decided that, if an entity chose to disclose a selected subset of its scope 3 GHG emission sources, it must identify which sources it has not disclosed (see paragraph 17).
- BC22. Although the XRB Board decided to provide an exemption from disclosure for the first year of reporting, it strongly encourages entities to measure their scope 3 GHG emissions. For most entities, scope 3 GHG emissions are where their most material emissions risks and opportunities lie. Obtaining a clear picture of the scale and scope of these emissions sources will greatly assist entities to understand their climate-related risks and opportunities and assist with transition planning.
- BC23. The XRB Board noted that the GHG Protocol Corporate Accounting and Reporting Standard does not require an entity to report its scope 3 GHG emissions. Therefore, an entity would be able to measure in accordance with the Corporate Accounting and Reporting Standard while disclosing either none, or a subset of, its scope 3 GHG emissions. The XRB Board also noted that ISO 14064-1:2018 requires an entity to identify the intended use of its GHG inventory. This use may include regulated disclosure schemes such as the GHG emissions disclosures required by Aotearoa New Zealand Climate Standards.

- BC24. In addition, the XRB Board noted that the GHG Protocol Corporate Accounting and Reporting Standard, the Corporate Value Chain (Scope 3) Accounting and Reporting Standard and ISO 14064-1:2018 – Greenhouse gases, allow an entity to exclude emission sources, including facilities, operations or assets under certain limited circumstances. Any specific exclusions of sources must be disclosed with a justification for their exclusion. The XRB Board believes the justification of exclusions is an important disclosure in its own right and has included it in NZ CS 1 (see NZ CS 1, paragraph 24(d)).
- BC25. Some respondents requested adoption provisions in relation to Metrics and Targets generally as part of the feedback received during the SMT consultation. They cited concerns that the Task Force on Climate-related Financial Disclosures (TCFD) cross-industry metric categories were relatively new and that there was a lack of data. In addition, time was needed for entities to put in place systems to measure and track these metrics and related targets. The XRB Board considered this feedback but decided not to provide any additional adoption provisions in ED NZ CS 2 as it considered that entities should be able to provide the metrics identified, albeit with a higher level of uncertainty or estimation in the first few years of disclosure. Responses to ED NZ CS 2 indicated support for this decision, and as a result no additional metrics and targets adoption provisions were included in this Standard.

### **Comparative information, consistency of reporting, and restatement of comparatives (Adoption provisions 5, 6 and 7)**

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- BC26. In ED NZ CS 2, the XRB Board noted that because Aotearoa New Zealand Climate Standards are based on TCFD recommendations, those entities that had voluntarily applied the TCFD's recommendations may be able to apply a retrospective approach and provide comparative metrics in their first reporting period. However, the XRB Board acknowledged that not all entities would be able to use a retrospective approach. Consequently, the XRB Board decided to include an adoption provision to provide exemptions from disclosing comparative information for metrics (see Adoption provision 6). Responses to ED NZ CS 2 supported the XRB Board's decision.
- BC27. Some respondents to ED NZ CS 2 requested that the XRB Board clarify the requirement to disclose comparative information when an entity uses adoption provision 4: Scope 3 GHG emissions. The XRB Board agreed clarification was required and consequently added Adoption provision 5: Comparatives for Scope 3 GHG emissions.
- BC28. Some respondents to ED NZ CS 2 requested an additional adoption provision from having to restate comparative information when methods had changed. The XRB Board had already decided that restatement of comparative information would not be required when an entity changes the methods used to calculate a metric. This decision is reflected in the requirements in NZ CS 3 (see NZ CS 3, paragraphs 44-46).
- BC29. Because the XRB Board had decided to include an adoption provision for comparative information, it concluded that entities should also be given an exemption for trend analysis in its first two reporting periods (see paragraph 22).