

Aotearoa New Zealand Climate Standards

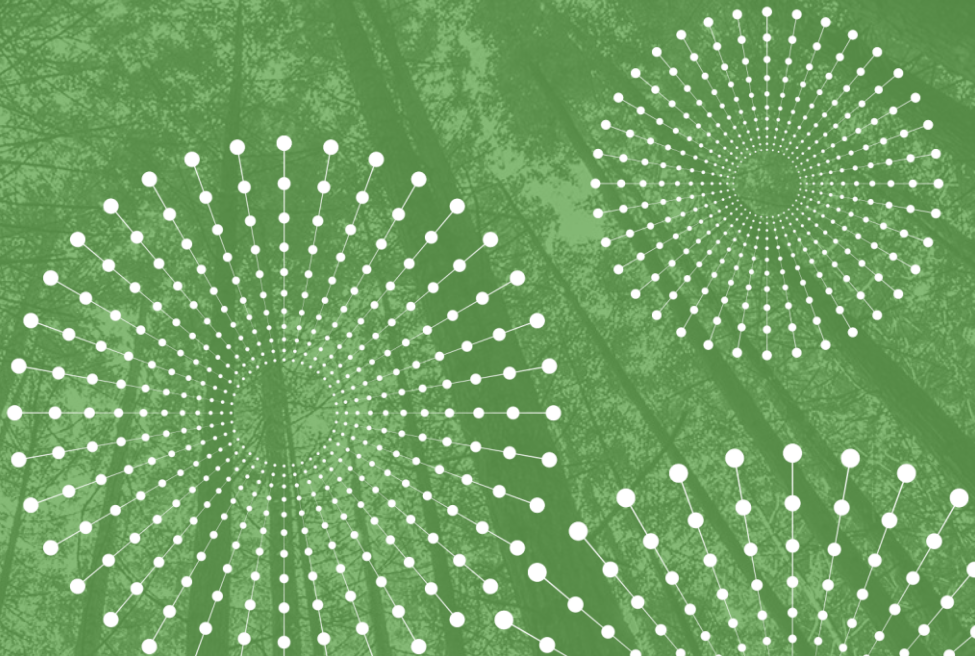
What we heard

Exposure Drafts NZ CS 1, NZ CS 2 and NZ CS 3

Consultation feedback



December 2022



Consultation feedback

Stakeholder feedback from our exposure draft consultation

In July 2022, as part of its final consultation, the XRB Board issued three exposure drafts that comprise the climate-related disclosures framework, collectively known as the Aotearoa New Zealand Climate Standards. The proposed requirements in the exposure drafts were informed by feedback received on the earlier Governance and Risk Management (GRM consultation), and Strategy and Metrics and Targets (SMT consultation), consultations. The exposure drafts and accompanying consultation document can be accessed [here](#).

Submission responses

We received 56 written responses on the exposure drafts (Figure 1). We also considered informal responses from social media and events. Over 350 people attended the launch event and over 500 attendees participated in deep dive events. Formal written responses on the exposure drafts can be viewed [here](#).

All but a few submissions made comments in support of the climate-related disclosures regime. The XRB received positive feedback on the consultation process and recognition that feedback from previous consultation rounds had been incorporated into the exposure drafts.

"Napier Port would like to extend its appreciation to the XRB on [...] the open and transparent consultation process that has culminated in a high quality Exposure Draft. We are also encouraged by the current weighting of a 'principle' rather than a 'prescriptive' based approach to these draft standards. This will greatly assist CREs when they start reporting against this framework for the first time" (Napier Port).

"We commend the XRB for its work on drafting the Aotearoa New Zealand Climate Standards. We also applaud the transparency shown [...] to include and revise its work based on the comments from various stakeholders expressed in the previous two consultation rounds" (CPA Australia Ltd).



Figure 1: Who we heard from

General feedback themes

Overall, respondents agreed that the draft standards will meet primary user needs, are clear and unambiguous and achieve the right balance between prescriptiveness and principles-based disclosures. General feedback themes also included expanding the definition of 'primary user' to include other stakeholders (such as customers, suppliers, iwi, or the public) and the

importance of international alignment (especially with the International Sustainability Standards Board (ISSB)).

Practical concerns raised included the application of the standards to MIS Managers; obtaining data from third parties; lack of available public datasets; scope 3 GHG emissions (in particular financed emissions); and the need to develop capability and capacity.

Climate-related disclosures (ED NZ CS 1)

Summary of feedback

Overall, there was a high level of support for the proposals in ED NZ CS 1, with the majority either agreeing or partially agreeing with the proposals.

Governance

Most respondents focused on, and agreed with, amendments made as a result of feedback received on the earlier GRM consultation. For example, the replacement of 'board' with 'governance body' and the amended disclosure requirement on skills and competencies. A few respondents raised concerns with the use of the term 'delegated' in 'how climate-related responsibilities are delegated to management-level positions or committees'. These respondents expressed concern that this suggested that entities have delegated ultimate responsibility from the governance body to management.

"There is some concern that NZ CS 1, 8(a) describing 'how climate-related responsibilities are delegated to management-level positions or committees' [...] might suggest that reporting entities have delegated ultimate responsibility from the Board to management, rather than delegating certain tasks but retaining ultimate accountability" (Vector Ltd).

Strategy

Respondents supported many of the changes made to the Strategy section as a result of the SMT consultation, such as replacing the terms 'actual' and 'potential' with the terms 'current' and 'anticipated' to better align with the ISSB, the 'starting qualitatively' approach to financial impact disclosures, the revised definition of transition risks and the inclusion of adaptation in transition planning.

"AMP also supports the XRB's approach of 'starting qualitatively and building in quantification over time' across the disclosures. This provides flexibility to develop data capability over time" (AMP).

Respondents were divided on requiring three scenarios (as opposed to two). Some requested

further specification of the third scenario to improve comparability and consistency.

"We recommend that the obligation to prepare the third scenario should be reconsidered or deferred to allow for the internal capability building necessary to ensure that scenarios disclosed are credible and thorough. [...] we consider the mandatory requirement for three different scenarios to be unnecessarily burdensome" (CA ANZ).

"LCANZI is delighted that the XRB agrees [...] at least three scenarios, including a mandatory 'high physical risk' scenario of 3 degrees or more of global warming by 2100" (LCANZI).

Clarification was sought, particularly from the insurance sector, on whether anticipated financial impacts disclosures are before or after planned responses by the entity. There were also requests for the disclosure of further details regarding transition plans, for example interim milestones.

"It is not clear if the anticipated financial impacts are pre-transition plan or post-transition plan. This should be clarified. We are of the belief that including, where possible, both pre-transition plan and post-transition plan anticipated financial impacts would be valuable to the user to understand how the transition plan impacts the business overall." (PwC).

One respondent highlighted that 'financial planning process' does not work well for MIS Managers and one sought the replacement of the term business model with business strategy.

Risk Management

Risk Management was the least commented on section. Some respondents requested clarification that there is a materiality overlay to the disclosure requirements, especially in relation to the proposed disclosure "whether any parts of the value chain are excluded".

"Mercury seeks clarification that there is a materiality overlay to this disclosure – for example, if a certain part of the value chain has been excluded, but it is not considered material, it would be useful for the Guidance to note that its exclusion need not be specifically identified" (Mercury).

Climate-related disclosures (ED NZ CS 1)

Risk Management (contd.)

Other comments included a suggestion to include reference to the National Climate Change Risk Assessment; a request to define time horizons across sectors; a concern about the amount of work to consider an entity's whole value chain plus some requests for guidance.

"The lack of defined time horizons could result in the potential incomparability of the identification, assessment and management of climate-related risks. [...] The Institute is concerned that this could lead to incomparable disclosures and could be improved by developing consistent time horizons across sectors" (McGuinness Institute).

Metrics and Targets

Of the comments received on this section, 28% agreed with the proposals, 60% partially agreed (often suggesting additional clarification or small adjustments to disclosures) and 11% disagreed. Those who disagreed generally requested additional requirements such as particular industry metrics, specified methodology for calculation of metrics and GHG emissions reports. A few respondents disagreed with the proposal not to specify industry-based metrics.

"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" (Otago Business School Academics).

Some respondents expressed confusion about the application of cross-industry metric categories. One respondent suggested that the wording used in the proposed basis for conclusions that cross industry metric categories are "those that apply to all entities" was very clear and should be replicated in the Standard. There were several requests for the reinstatement of the requirement to disclose the GWP rates used and the source of emissions factors.

More prescription was sought by some, such as defining GHG emissions intensity metrics or providing a definition of 'vulnerable'. There was support for the

removal of 'percentage of revenue' from the metric category disclosure on opportunities. Some respondents requested additional disclosures on internal emissions price such as how the entity determines the price, how it is used and what time period it is relevant for.

"While we support the general inclusion of required metrics to be disclosed, the lack of specificity around the metrics definitions risks those metrics no longer assisting primary users to make informed decisions when engaging in the market" (Dentons Kensington Swan).

Most respondents agreed or partially agreed with the proposed targets disclosures. Of those in partial agreement close to a third of comments were in relation to the phrase 'in alignment with science', and there were some comments on the validation by a third party and that disclosure of the use of offsets may be seen to endorse the use of offsets as a way of achieving a target.

"We [...] suggest that the standard explicitly request organisations to demonstrate how their ambition aligns with the urgent global transformational change that is needed in all sectors to limit warming to 1.5 or well below 2 degrees, taking into account their relative wealth, human and technological capacity, relative to the global context; and that achieving a global target inevitably means that some organisations need to reduce their emissions more rapidly than the global target, to allow others (those with less capacity, resources, and currently or historically lower emissions, and greater development needs) to achieve the target later" (D Thom).

Assurance of GHG emissions

Very few comments were received on the level of assurance. Some respondents expressed agreement with the proposed requirement to obtain limited assurance. A few recommended that the XRB Board should require reasonable assurance in the future, and a few thought that scope 1 and 2 GHG emissions should be subject to reasonable assurance from the start of the assurance regime.

First-time Adoption (ED NZ CS 2)

Summary of feedback

Overall, there was a high level of support for the proposed first-time adoption provisions. However, some respondents felt that the requirements should be phased in over a longer period (such as, a 3-year period according to an entity's own timetable). Others noted that the XRB should clarify in the Standard which, if any, adoption provisions may be used more than once by an entity.

comparative information if an entity elected to make use of the adoption provision for scope 3 GHG emissions.

"We are supportive of the proposed approach to the first-time adoption provisions, and in particular the relief provided for reporting scope 3 GHG emissions. We consider that climate-reporting entities are likely to voluntarily report scope 3 emissions to the extent that such information is available, but that specific relief is helpful while further scope 3 data becomes available" (NZX Limited).

Strategy

There was overall support for the proposed strategy adoption provisions. A few respondents requested longer exemptions for some aspects, such as requests for an extra year to disclose financial impacts and transition planning. A few respondents suggested removing the adoption provision in relation to time horizons associated with financial impacts.

"Scope 3 is a broad emissions category, and providing a whole-of-scope exemption when the primary concern is with financed and underwritten emissions gives organisations the excuse to ignore the many other Scope 3 emissions which are relatively simple to measure and have robust and proven methodologies. The XRB should remove this exemption, and not allow the excuse of 'it's too hard' to unduly influence these standards" (Todd Foster).

"Given the experience of some entities within the insurance industry even with the first time adoption provisions some entities may struggle to produce meaningful disclosures for scenario analyses" (New Zealand Society of Actuaries).

Scope 3 GHG emissions

60% of the comments received on the proposed scope 3 GHG emissions adoption provision supported the proposals. A further 17% partially agreed, whereas 21% disagreed and thought that entities should disclose scope 3 GHG emissions from year one.

Of those who partially agreed, some requested a longer adoption period for some emission sources, and others suggested no adoption provisions for some emission sources. Some respondents also asked if it was possible for an entity to disclose some scope 3 emissions in their first year using the proposed adoption provision. Some respondents requested clarification on the requirement to disclose

General Requirements (ED NZ CS 3)

Summary of feedback

Of comments received on this draft Standard, 25% agreed with proposed disclosures, 48% partially agreed and 25% disagreed. Nearly half of those who disagreed were in relation to the materiality section.

Principles

Feedback largely supported the proposed principles. However, some highlighted the inherent tension between the comparability and consistency principles, especially in the early years of the disclosure regime. Others requested clarification that in this context, consistency does not mean new approaches or methods cannot be adopted where emerging practice supports change and the rationale is disclosed.

"In summary, we feel that the principles and requirements stipulated in NZ CS 3 are comprehensive, well-founded and based on solid international standards" (Wellington Airport).

Location of disclosures

Most of comments received were supportive of the proposed location of disclosures requirements. Of those that were not, concerns were raised about allowing website cross referencing due to the requirement to lodge climate statements on the relevant register.

"What is proposed is reasonable. It provides flexibility...[and] makes it clear that wherever the disclosure is made it needs to meet accessibility and fair representation requirements and provide cross-referencing to assist both requirements" (Insurance Council of New Zealand).

Materiality

Of comments received on the proposed materiality requirements, 70% disagreed. The main reasons for disagreement were requests to adopt double materiality, the linkage to 'assessments of enterprise value' in the definition of 'material', or requests to align with the definition of 'material' in the Financial Markets Conduct Act 2013 (i.e., the 'reasonable person' test). We also received requests for guidance

on how to apply materiality.

"[...] we do not support the use of enterprise value alone as a basis for materiality and recommend that the XRB amends the definition so that it also applies to public sector entities" (Auckland Council).

Comparative information

Most comments received partially agreed with these proposals, with agreement subject to clarifications, e.g., whether an entity is required to disclose comparatives if it uses a new metric.

"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" (Financial Services Council NZ).

A few respondents requested the XRB Board consider requiring restatement of comparative information for material changes unless impracticable to do so.

Methodologies and assumptions

Most comments received either agreed or partially agreed with the proposed requirements. Some raised concerns regarding the level of detail required for the scenario analysis methodologies and assumptions disclosures or requested more explicit disclosures relating to data.

"Members support the requirements at NZ CS 3 regarding GHG emissions methodologies, assumptions and estimation uncertainty. Members suggest that these disclosures include specific reference to data limitations (including as to assumptions and availability of data) so that the expectation to disclose limitations around the uncertainty and/or availability of data is explicit" (NZ Bankers Association).

Statement of compliance

Some respondents expressed concern with having to make an 'explicit and unreserved' statement of compliance in the introduction phase of the regime.