Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Aotearoa New Zealand Climate Standard 1

Climate-related Disclosures (NZ CS 1)

Applies from 1 January 2023

Issued December 2022

Aotearoa New Zealand Climate Standard 1

Climate-related Disclosures (NZ CS 1)

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 dates in paragraphs B1 to B2 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.

http://www.xrb.govt.nz

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Contents: NZ CS 1 *Climate-related Disclosures*

Objective **6**

Scope **6**

Governance **6**

Disclosure objective 6

Disclosures 6

Governance body oversight 6

Management's role 7

Strategy **7**

Disclosure objective 7

Disclosures 7

Current impacts and financial impacts 7

Scenario analysis undertaken 8

Climate-related risks and opportunities 8

Anticipated impacts and financial impacts 8

Transition plan aspects of its strategy 8

Risk Management **9**

Disclosure objective 9

Disclosures 9

Metrics and Targets **9**

Disclosure objective 9

Disclosures 9

Metric categories 10

Targets 10

GHG emissions 10

Assurance of GHG emissions **11**

Appendix A Defined terms **12**

Appendix B Application date **15**

Application date 15

Basis for Conclusions on NZ CS 1 *Climate-related Disclosures* **17**

NZ CS 1 *Climate-related Disclosures* is set out in paragraphs 1–26 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 3 *General Requirements for Climate-related Disclosures* and NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards.*

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 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 provides optional adoption provisions.
- NZ CS 3 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

1. In providing a consistent framework for entities to consider the *climate-related risks* and *climate-related opportunities* that climate change presents for their activities over the short, medium and long term, the objective of this Standard is to enable *primary users* to assess the merits of how entities are considering those risks and opportunities, and then make decisions based on these assessments.
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

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.[1]
5. This Standard does not apply to an *interim period*.

Governance

Disclosure objective

6. To enable primary users to understand both the role an entity's *governance body* plays in overseeing climate-related risks and climate-related opportunities, and the role *management* plays in assessing and managing those climate-related risks and opportunities.

Disclosures

7. To achieve the disclosure objective in paragraph 6, an entity must disclose the following information:
   (a) the identity of the governance body responsible for oversight of climate-related risks and opportunities;
   (b) a description of the governance body's oversight of climate-related risks and opportunities (see paragraph 8); and
   (c) a description of management's role in assessing and managing climate-related risks and opportunities (see paragraph 9).

Governance body oversight

8. An entity must include the following information when describing the governance body's oversight of climate-related risks and opportunities (see paragraph 7(b)):
   (a) the processes and frequency by which the governance body is informed about climate-related risks and opportunities;
   (b) how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities;

[1] For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

(c) how the governance body considers climate-related risks and opportunities when developing and overseeing implementation of the entity's strategy; and

(d) how the governance body sets, monitors progress against, and oversees achievement of *metrics* and *targets* for managing climate-related risks and opportunities, including whether and if so how, related performance metrics are incorporated into remuneration policies (see also paragraph 22(h)).

Management's role

9. An entity must include the following information when describing management's role in assessing and managing climate-related risks and opportunities (see paragraph 7(c)):

(a) how climate-related responsibilities are assigned to management-level positions or committees, and the process and frequency by which management-level positions or committees engage with the governance body;

(b) the related organisational structure(s) showing where these management-level positions and committees lie; and

(c) the processes and frequency by which management is informed about, makes decisions on, and monitors, climate-related risks and opportunities.

Strategy

Disclosure objective

10. To enable primary users to understand how climate change is currently impacting an entity and how it may do so in the future. This includes the *scenario analysis* an entity has undertaken, the climate-related risks and opportunities an entity has identified, the anticipated *impacts* and *financial impacts* of these, and how an entity will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future.

Disclosures

11. To achieve the disclosure objective in paragraph 10, an entity must disclose:

(a) a description of its current climate-related impacts (see paragraph 12);

(b) a description of the scenario analysis it has undertaken (see paragraph 13);

(c) a description of the climate-related risks and opportunities it has identified over the short, medium, and long term (see paragraph 14);

(d) a description of the anticipated impacts of climate-related risks and opportunities (see paragraph 15); and

(e) a description of how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state (see paragraph 16).

Current impacts and financial impacts

12. An entity must include the following information when describing its current climate-related impacts (see paragraph 11(a)):

(a) its current physical and transition impacts;

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

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

Scenario analysis undertaken

13. An entity must describe the scenario analysis it has undertaken to help identify its climate-related risks and opportunities and better understand the resilience of its business model and strategy. This must include a description of how an entity has analysed, at a minimum, a 1.5 degrees Celsius *climate-related scenario,* a 3 degrees Celsius or greater climate-related scenario, and a third climate-related scenario (see paragraph 11(b)).

Climate-related risks and opportunities

14. An entity must include the following information when describing the climate-related risks and opportunities it has identified (see paragraph 11(c)):

(a) how it defines short, medium and long term and how the definitions are linked to its strategic planning horizons and capital deployment plans;

(b) whether the climate-related risks and opportunities identified are *physical* or *transition risks* or opportunities, including, where relevant, their sector and geography; and

(c) how climate-related risks and opportunities serve as an input to its internal capital deployment and funding decision-making processes.

Anticipated impacts and financial impacts

15. An entity must include the following information when describing the anticipated impacts of the climate-related risks and opportunities it has identified (see paragraph 11(d)):

(a) the anticipated impacts of climate-related risks and opportunities reasonably expected by the entity;

(b) the anticipated financial impacts of climate-related risks and opportunities reasonably expected by an entity;

(c) a description of the time horizons over which the anticipated financial impacts of climate-related risks and opportunities could reasonably be expected to occur; and

(d) if an entity is unable to disclose quantitative information for paragraph 15(b), an explanation of why that is the case.

Transition plan aspects of its strategy

16. An entity must include the following information when describing how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state (see paragraph 11(e)):

(a) a description of its current business model and strategy;

(b) 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

(c) the extent to which transition plan aspects of its strategy are aligned with its internal capital deployment and funding decision-making processes.

Risk Management

Disclosure objective

17. To enable primary users to understand how an entity's climate-related risks are identified, assessed, and managed and how those processes are integrated into existing *risk management* processes.

Disclosures

18. To achieve the disclosure objective in paragraph 17, an entity must disclose the following information for both transition risks and physical risks:

    (a) a description of its processes for identifying, assessing and managing climate-related risks (see paragraph 19); and

    (b) a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management processes.

19. An entity must include the following information when describing its processes for identifying, assessing and managing climate-related risks (see paragraph 18(a)):

    (a) the tools and methods used to identify, and to assess the scope, size, and impact of, its identified climate-related risks;

    (b) the short-term, medium-term, and long-term time horizons considered, including specifying the duration of each of these time horizons;

    (c) whether any parts of the *value chain* are excluded;

    (d) the frequency of assessment; and

    (e) its processes for prioritising climate-related risks relative to other types of risks.

Metrics and Targets

Disclosure objective

20. To enable primary users to understand how an entity measures and manages its climate-related risks and opportunities. Metrics and targets also provide a basis upon which primary users can compare entities within a sector or industry.

Disclosures

21. To achieve the disclosure objective in paragraph 20, an entity must disclose:

    (a) the metrics that are relevant to all entities regardless of industry and business model (see paragraph 22);

    (b) industry-based metrics relevant to its industry or business model used to measure and manage climate-related risks and opportunities;

    (c) any other key performance indicators used to measure and manage climate-related risks and opportunities; and

    (d) the targets used to manage climate-related risks and opportunities, and performance against those targets (see paragraph 23).

Metric categories

22. An entity must disclose metrics for each of the categories below (see paragraph 21(a)):

(a) *greenhouse gas* (*GHG*) emissions: *gross emissions* in metric tonnes of *carbon dioxide equivalent* (*CO_2e*) classified as (see paragraph 24):

(i) *scope 1;*

(ii) *scope 2* (calculated using the location-based method)*;*

(iii) *scope 3;*

(b) GHG *emissions intensity*;

(c) transition risks: amount or percentage of assets or business activities vulnerable to transition risks;

(d) physical risks: amount or percentage of assets or business activities vulnerable to physical risks;

(e) climate-related opportunities: amount or percentage of assets, or business activities aligned with climate-related opportunities;

(f) capital deployment: amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities;

(g) *internal emissions price*: price per metric tonne of CO_2e used internally by an entity; and

(h) remuneration: management remuneration linked to climate-related risks and opportunities in the current period, expressed as a percentage, weighting, description or amount of overall management remuneration (see also paragraph 8(d)).

Targets

23. An entity must include the following information when describing the targets used to manage climate-related risks and opportunities, and performance against those targets (see paragraph 21(d)):

(a) the time frame over which the target applies;

(b) any associated *interim targets*;

(c) the *base year* from which progress is measured;

(d) a description of performance against the targets; and

(e) for each GHG emissions target:

(i) whether the target is an *absolute target* or *intensity target*;

(ii) the entity's view as to how the target contributes to limiting global warming to 1.5 degrees Celsius;

(iii) the entity's basis for the view expressed in 23(e)(ii), including any reliance on the opinion or methods provided by third parties; and

(iv) the extent to which the target relies on offsets, whether the offsets are verified or certified, and if so, under which scheme or schemes.

GHG emissions

24. An entity must disclose the following in relation to its GHG emissions (see paragraph 22(a)):

(a) a statement describing the standard or standards that its GHG emissions have been measured in accordance with;

(b) the GHG emissions consolidation approach used: equity share, financial control, or operational control;

(c) the source of *emission factors* and the *global warming potential* (*GWP*) rates used or a reference to the GWP source; and

(d) a summary of specific exclusions of sources, including facilities, operations or assets with a justification for their exclusion.

Assurance of GHG emissions

25. Part 7A of the Financial Markets Conduct Act 2013 requires that the disclosure of an entity's GHG emissions as required by Aotearoa New Zealand Climate Standards are the subject of an assurance engagement. This Standard requires that this assurance engagement is a limited assurance engagement at a minimum.

26. For the avoidance of doubt, the following information required by Aotearoa New Zealand Climate Standards is subject to an assurance engagement:

    (a) GHG emissions: gross emissions in metric tonnes of CO_2e classified as (see paragraph 22(a)):

        (i) scope 1;

        (ii) scope 2 (calculated using the location-based method);

        (iii) scope 3;

    (b) additional requirements for the disclosure of GHG emissions (see paragraph 24);

    (c) GHG emissions methods, assumptions and estimation uncertainty (see NZ CS 3 *General Requirements for Climate-related Disclosures* paragraphs 52 to 54).

Appendix A
Defined terms

This appendix is an integral part of NZ CS 1 *Climate-related Disclosures* 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.

absolute target	A target defined by a change in absolute GHG emissions over time. For example, reducing scope 1 GHG emissions by 50% by 2030 from a 2019 base year.
Aotearoa New Zealand Climate Standards	Standards issued by the External Reporting Board that comprise the climate-related disclosure framework.
base year	An historical datum (a specific year or an average over multiple years) against which an entity's metric is tracked over time.
carbon dioxide equivalent	The universal unit of measurement to indicate the global warming potential of each of the seven GHGs, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. It is used to evaluate releasing (or avoiding releasing) any GHGs against a common basis.
climate-related disclosure framework	Climate-related disclosure framework has the same meaning set out in section 9AA of the Financial Reporting Act 2013.
climate-related opportunities	The potentially positive climate-related outcomes for an entity. Efforts to mitigate and adapt to climate change can produce opportunities for entities, such as through resource efficiency and cost savings, the adoption and utilisation of low-emissions energy sources, the development of new products and services, and building resilience along the value chain.
climate-related risks	The potential negative impacts of climate change on an entity. See also the definitions of physical risks and transition risks.
climate-related scenario	A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Climate-related scenarios are not intended to be probabilistic or predictive, or to 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 the uncertain future impacts of climate change.
climate statements	Climate statements has the meaning set out in section 5 of the Financial Reporting Act 2013.
CO_2e	See **carbon dioxide equivalent**.
emission factor	A factor allowing GHG emissions to be estimated from a unit of available activity data (for example, tonnes of fuel consumed, tonnes of product produced) and absolute GHG emissions.
emissions intensity	Intensity ratios express GHG emissions impact per unit of physical activity or unit of economic output. A physical intensity ratio is suitable when aggregating or comparing across entities that have similar products. An economic intensity ratio is suitable when aggregating or comparing across entities that produce different products. A declining intensity ratio reflects a positive performance improvement. Intensity ratios are also often called normalised environmental impact data. Examples of intensity ratios include product emission intensity (for example, tonnes of GHG emissions per electricity generated); service

	intensity (for example, GHG emissions per function or service); and sales intensity (for example, emissions per sales).
financial impacts	The translation of impacts into current or anticipated impacts on financial performance, financial position and cash flows.
GHG	See **greenhouse gas**.
global warming potential	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of carbon dioxide (CO_2).
governance body	A board, investment committee or equivalent body charged with governance.
greenhouse gas	The greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO_2); methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF_3), perfluorocarbons (PFCs), and sulphur hexafluoride (SF_6).
gross emissions	Emissions are the release of GHGs into the atmosphere. Gross emissions are total GHG emissions excluding any removals, and excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based method.
group climate statements	Group financial statements has the meaning set out in section 5 of the Financial Reporting Act 2013.
GWP	See **global warming potential**.
impacts	The effects (also referred to as consequences or outcomes) of climate change occurring for an entity. These effects will, in turn, depend on the impacts of climate change on the broader socioeconomic and ecological systems an entity operates within (including an entity's value chain).
intensity target	A target defined by a change in the ratio of emissions to a metric over time. For example, reducing tonnes CO_2e per dollar revenue by 48% by 2025 from a 2018 base year.
interim period	A financial reporting period shorter than a full financial year.
interim target	A short-term milestone between an entity's medium-term or long-term target and the current period.
internal emissions price	A monetary value on GHG emissions that an entity uses internally to guide its decision-making process in relation to climate-related impacts, risks and opportunities.
management	Executive or senior management positions that are generally separate from the governance body.
metric	A quantity indicative of the level of historical, current, and forward-looking climate-related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against targets over the duration of the period for which a target is set.
physical risks	Risks related to the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns, such as sea level rise.
primary users	Existing and potential investors, lenders and other creditors.

risk management	A set of processes that are carried out by an entity's governance body and management to support the achievement of an entity's objectives by addressing its risks and managing the combined potential impact of those risks.
scenario analysis	A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. Engaging in this process helps an entity to identify its climate-related risks and opportunities and develop a better understanding of the resilience of its business model and strategy.
scope 1	Direct GHG emissions from sources owned or controlled by the entity.
scope 2	Indirect GHG emissions from consumption of purchased electricity, heat, or steam.
scope 3	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.
target	A specific level, threshold, or quantity of a metric that an entity wishes to meet over a defined time horizon in order to achieve an entity's overall climate-related ambition and strategy.
transition plan	An aspect of an entity's overall strategy that describes an entity's targets, including any interim targets, and actions for its transition towards a low-emissions, climate-resilient future.
transition risks	Risks related to the transition to a low-emissions, climate-resilient global and domestic economy, such as policy, legal, technology, market and reputation changes associated with the mitigation and adaptation requirements relating to climate change.
value chain	The full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end of life. Relevant activities, resources and relationships include those in an entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which an entity operates.

Appendix B
Application date

This appendix is an integral part of NZ CS 1 *Climate-related Disclosures* 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, except for paragraphs 25 to 26.

B2. Assurance of GHG emissions (see paragraphs 25 to 26) applies to annual reporting periods that end on or after 27 October 2024.

Contents: Basis for Conclusions on NZ CS 1 *Climate-related Disclosures*

Introduction **17**

Reasons for issuing this Standard 17

Approach 17

Consultation 19

Post-implementation review 19

Governance **20**

Approach 20

Governance body 20

Skills and competencies 20

Performance metrics 20

Strategy **21**

Approach 21

Current and anticipated impacts and financial impacts 21

Scenario analysis 22

Transition planning 24

Use of terms business model, strategy and financial planning 24

Risk Management **24**

Approach 24

Specific disclosures 24

Parts of value chain excluded 25

Metrics and Targets **25**

Approach 25

Metric categories 25

Industry-based metrics and other key performance indicators 26

Targets 26

GHG emissions 27

Assurance **28**

Level of assurance 29

Scope of assurance engagement 29

Basis for Conclusions on NZ CS 1 *Climate-related Disclosures*

This Basis for Conclusions accompanies, but is not part of, NZ CS 1 *Climate-related Disclosures.*

Introduction

BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing NZ CS 1 *Climate-related Disclosures* as part of the climate-related disclosure framework for Aotearoa New Zealand.[2]

Reasons for issuing this Standard

BC2. In September 2020, the New Zealand Government announced its intention to implement mandatory reporting on climate-related risks and opportunities. Transparent and comparable disclosures relating to climate-related risks and opportunities are intended to contribute to the shift towards a low-emissions, climate-resilient future. They do so by ensuring that the effects of climate change are more routinely considered in an entity's strategy and decision making, and by enabling investors to make more informed capital allocation decisions about the climate-related risks and opportunities of existing and potential investments.

BC3. The New Zealand Government signalled that the reporting would be based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD recommendations are a leading framework for climate-related disclosures and were endorsed by the New Zealand Government in 2019.

BC4. In October 2021, the *Financial Sector* (Climate-related Disclosures and Other Matters) Amendment Act (the Amendment Act) was passed and received Royal Assent. As a result, the XRB was given the mandate to issue climate standards as part of a climate-related disclosure framework.

Approach

BC5. When the XRB Board started its project to develop a climate-related disclosure framework for Aotearoa New Zealand, it also developed several design principles to guide its process. The XRB Board was aware of the relatively ambitious timeframe it had set for delivering the framework (i.e., intending to issue the framework by December 2022) and that having defined parameters and principles would assist. The design principles included that:

(a) the XRB would be guided by the qualitative characteristics of information that are useful for decision making: relevance, faithful representation (information being complete, neutral, and free from error), comparability, verifiability, timeliness and understandability;

(b) NZ CS 1 would be principles-based and succinct, with decisions about what is in NZ CS 1 and what is in accompanying non-binding staff guidance (guidance) to be made on a case-by-case basis;

(c) the set of standards and guidance would be developed based on the recommendations of the TCFD, with any additions beyond what is contained within the TCFD suite of documents made as best practice evolves and with a view to future proofing the standards;

(d) the set of standards and guidance would be developed with a user-needs focus, meaning that the disclosures must be useful to existing and potential investors, lenders and other creditors (primary users);[3] and

(e) an understanding of te ao Māori is being developed at a framework level across the XRB to inform our work on wider sustainability reporting and this understanding would inform NZ CS 1 over time as it is able.

[2] Note that some of the content in this Basis for Conclusions applies to the whole climate-related disclosure framework.

[3] See the Basis for Conclusions for NZ CS 3 for more information on the primary user definition.

BC6. When developing Aotearoa New Zealand Climate Standards the XRB Board aimed to achieve an appropriate mix of principles-based disclosures. This attempt to balance principles and rules-based disclosures was carried out in alignment with the design principles. The XRB Board aimed to provide flexibility for entity-specific disclosures, and more prescriptive disclosures that provide some degree of comparability (for example, relating to scenario analysis or the disclosure of certain metrics). The XRB Board noted however that due to the nature of the information disclosed, comparability across different entities, particularly at an individual disclosure level, is likely to be limited. Rather, more meaningful comparability will be achieved between an entity's own disclosures over time (see also NZ CS 3, paragraph BC17).

BC7. The XRB Board initially proposed that the climate-related disclosure framework would comprise at least two standards (collectively referred to as Aotearoa New Zealand Climate Standards) and one authoritative notice. However, based on the desire to keep NZ CS 1 concise, and to enable both general requirements and principles to be included in Aotearoa New Zealand Climate Standards, the XRB Board proposed an updated framework in March 2022.

(a) Aotearoa New Zealand Climate Standard 1: *Climate-related Disclosures* (NZ CS 1).

(b) Aotearoa New Zealand Climate Standard 2: *First-time Adoption of Aotearoa New Zealand Climate Standards* (NZ CS 2).[4]

(c) Aotearoa New Zealand Climate Standard 3: *General Requirements for Climate-related Disclosures* (NZ CS 3).

BC8. The XRB Board also reaffirmed in March 2022 its earlier decision made in 2021 that non-binding guidance would be issued to accompany Aotearoa New Zealand Climate Standards where needed, given the principles-based approach to the development of the standards.

BC9. The XRB Board established two groups to support the development of the climate-related disclosure framework: an XRB Project Steering Group[5] to provide standard-setting guidance, and an External Advisory Panel.[6] The intent of the External Advisory Panel was to advise on technical matters particularly those relating to the practical application and implementation of the framework. XRB staff also held many discussions, workshops and sessions with preparers, experts and advisors on topics ranging from sector-level scenario construction to greenhouse gas (GHG) emissions.

BC10. The XRB Board had the added challenge of developing the climate-related disclosure framework in a rapidly evolving international environment. Since the XRB Board started its project, international developments included the:

(a) TCFD issuing new guidance and amendments to its original recommendations;

(b) International Sustainability Standards Board (ISSB) being established;

(c) United States Securities and Exchange Commission (US SEC) releasing their proposed framework for mandatory climate-related disclosures for public consultation; and

(d) European Commission launching a public consultation on their first set of draft European Sustainability Reporting Standards (ESRS).

BC11. The developments that had the most bearing on the initial approach adopted by the XRB Board in developing Aotearoa New Zealand Climate Standards were the establishment of the ISSB and the subsequent issue by the ISSB of two proposed standards: Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (ED IFRS S1) and Exposure Draft IFRS S2 *Climate-related Disclosures* (ED IFRS S2).

BC12. While the XRB Board continued to base Aotearoa New Zealand Climate Standards on the foundation provided by the TCFD, it acknowledged the need for alignment with the ISSB while still developing requirements that are appropriate for Aotearoa New Zealand. As a result, in some cases the XRB Board decided to align more closely with the requirements in the ISSB's

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4 Note that the name of NZ CS 2 was amended to *Adoption of Aotearoa New Zealand Climate Standards*.

5 The Project Steering Group comprised Jacqueline Cheyne (Chair of the Project Steering Group and member of the XRB Board), Michele Embling (Chair of the XRB Board), Jane Taylor (Deputy Chair of the XRB Board) and April Mackenzie (Chief Executive of the XRB).

6 The External Advisory Panel comprised Annabell Chartres (PwC), Alison Howard (Wellington City Council), Adrian McDonald (University of Canterbury), Darren Beatty (Te Rūnanga o Ngāi Tahu Group), Karl Hickey (ANZ Bank Ltd), Belinda Storey (Climate Sigma), Dale Scott (Onepointfive Ltd) and Jonathan Keate (Office of the Auditor-General).

ED IFRS S1 and ED IFRS S2, rather than with the original TCFD recommendations and guidance.[7]

Consultation

BC13. As part of the due process for developing standards, the XRB Board has a statutory obligation to consult with stakeholders before issuing a standard. It has consulted early and widely in recognition of being among the first in the world to create a mandatory climate-related disclosure regime.

BC14. In October 2021, the XRB Board consulted on the proposed Governance and Risk Management sections of this Standard. The XRB Board received 67 formal responses to the Governance and Risk Management Consultation Document (GRM consultation). The XRB Board also considered informal responses from social media and events. The XRB participated in over 20 events during the consultation period. The XRB presented to more than 1600 people and received over 100 questions and comments from social media and events. A GRM consultation feedback document was published in February 2022.

BC15. In March 2022 the XRB Board consulted on the other two main sections of this Standard: Strategy, and Metrics and Targets. It also consulted on the level of assurance for GHG emissions disclosures, and a proposed definition of, and a draft section on, materiality (which it proposed to include in NZ CS 3). The XRB Board received 66 formal responses to the Strategy, and Metrics and Targets Consultation Document (SMT consultation). The XRB ran a series of deep-dive webinars on the Strategy, and Metrics and Targets proposals. As with the previous consultation, the XRB also met with stakeholders to discuss the proposals and receive informal feedback. A SMT consultation feedback document was published in June 2022.

BC16. In July 2022 the XRB Board undertook its final consultation (ED consultation) and issued its Climate-related Disclosure Framework Consultation Document and the following exposure drafts: ED Aotearoa New Zealand Climate Standard 1 *Climate-related Disclosures* (ED NZ CS 1), ED Aotearoa New Zealand Climate Standard 2 *First-time Adoption of Aotearoa New Zealand Climate Standards* (ED NZ CS 2) and ED Aotearoa New Zealand Climate Standard 3 *General Requirements for Climate-related Disclosures* (ED NZ CS 3). The three exposure drafts incorporated feedback received from the GRM and SMT consultations. The XRB ran another series of deep-dive webinars on the proposals in the ED consultation. The XRB Board received 56 formal responses to the ED consultation, the majority of which were in support of the proposals. Feedback received on individual disclosure requirements was considered by the XRB Board and in some cases resulted in minor amendments to the proposals.

Post-implementation review

BC17. A post-implementation review (PIR) is a tool used by standard setters to look back at how well a standard is performing in practice after it has been in use for some time. PIRs allow standard setters to look at a number of things, including: Have the standard's objectives been achieved? Are the requirements on the most difficult or contentious issues performing as intended? Have new issues emerged since the standard was issued? Are the compliance costs consistent with expectations?

BC18. As discussed above, the XRB Board has consulted extensively in developing Aotearoa New Zealand Climate Standards. As a result of this consultation, the XRB Board is aware that the proposed disclosure requirements are substantial, but equally, that they are being demanded by primary users to inform their decision making. The XRB Board's aim is for the disclosures made by entities to be high quality and meet the disclosure requirements from the outset. However, the XRB Board is mindful that the underlying practices within entities supporting the disclosure requirements will become more sophisticated over time.

BC19. The XRB Board acknowledges nonetheless that consultation is not a substitute for real-life application experience. The XRB Board have therefore committed to begin a PIR of the climate-related disclosure framework no later than December 2025. During the period between

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[7] Noting that the ISSB's proposed standards are in exposure draft form and are not intended to be issued as final standards until early 2023.

issuing the framework and the PIR, the XRB Board will monitor the progress of entities and will continue to develop material and hold education sessions to help with an understanding of Aotearoa New Zealand Climate Standards.

Governance

Approach

BC20. The Governance disclosures are based on the TCFD recommendations. The TCFD recommendations are based on the premise that primary users of climate-related disclosures are interested in understanding the role an entity's board plays in overseeing climate-related risks and opportunities as well as management's role in assessing and managing those climate-related risks and opportunities. Such information supports evaluations of whether climate-related risks and opportunities receive appropriate attention from the governance body and management.

BC21. In addition to the TCFD recommendations, this Standard includes more detailed disclosure requirements in relation to some aspects of the governance and management of climate-related risks and opportunities. An example is the disclosure on how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities. The XRB Board added these disclosures to meet the information needs of primary users.

Governance body

BC22. The XRB Board received feedback from the GRM consultation that while the use of the term 'board' aligned with the TCFD recommendations, a more generic term should be used in this Standard such as 'governance body' which would have broader relevance to those entities that do not have a board. The XRB Board agreed with the feedback received and replaced all references to 'board' with 'governance body'. This amendment aims to also accommodate other governing bodies such as an investment committee of a manager of a registered managed investment scheme (MIS Manager). The XRB Board also added an additional disclosure for an entity to disclose the identity of the governance body responsible for oversight of climate-related risks and opportunities.

Skills and competencies

BC23. In the GRM consultation document, the XRB Board noted calls from primary users for more information about board skills and competencies in relation to providing oversight of climate-related risks and opportunities. The XRB Board proposed a requirement for an entity to disclose how a board accesses expertise on climate-related risks and opportunities. Feedback received on the GRM consultation, particularly from investor bodies, wanted the XRB Board to strengthen this disclosure. Responding to the feedback received, the XRB Board amended the disclosure requirement to require disclosure of 'how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities'. The XRB Board acknowledges that in the early years of the regime, this disclosure is likely to reflect an entity's progress in capacity building and developing competencies.

Performance metrics

BC24. The XRB Board highlighted in the GRM consultation that it had proposed a disclosure on how related performance metrics are incorporated into remuneration policies (and also noted that this disclosure was in the TCFD guidance under the Metrics and Targets section). The XRB Board received mixed feedback on this disclosure, with some respondents concerned with the level of prescriptiveness. The XRB Board decided to retain this disclosure as, in its view, it provides information to primary users on how climate-related targets are embedded throughout an entity and that management is being held accountable for achieving those targets. However, responding to the feedback received, the XRB Board amended this disclosure to make it explicit that the disclosure relating to incorporating performance metrics into remuneration policies is a disclosure of 'whether and if so, how' these metrics are incorporated. The XRB Board noted that the ISSB's ED IFRS S2 contains this disclosure requirement.

Strategy

Approach

BC25. As an overarching approach, the XRB Board sought to emphasise that the Strategy section is not about an entity having, or not having, a 'climate strategy'. Rather, it is about an entity disclosing to primary users how climate change is impacting and may further impact an entity's ability to deliver on its core strategy. It is also about what an entity is doing, given those impacts and anticipated impacts, to achieve a better strategic position and build resilience (which is increasingly now expected to be communicated through a credible transition plan).

BC26. Many entities made clear over the course of the consultation that meeting the Strategy disclosure requirements would be challenging. The breadth of the section, the novelty of the underlying processes enabling an entity to make meaningful disclosures, and the degree to which it seeks to integrate with core strategy and the financial statements, all present unique challenges. In response, the XRB Board carefully considered the overall balance of what is practical for entities to achieve, the information demands of their primary users, and international alignment. The XRB Board also heard directly from those more advanced entities about the high value they found in implementing the processes underlying many of the disclosure requirements.

BC27. Overall, the XRB Board considers that the Strategy section has balanced these considerations. It remains well aligned with the TCFD's recommendations, but it has evolved to better align with the structure and some of the specific disclosure requirements and defined terms of the ISSB's ED IFRS S2.

Current and anticipated impacts and financial impacts

BC28. The XRB Board sought, as far as appropriate, to align with the ISSB's proposals on current and anticipated financial impacts so as to maximise the ability for entities to align globally and make use of any forthcoming international guidance in this quickly emerging area. In the SMT consultation the XRB Board's proposed disclosures aimed to align with the IFRS Foundation Technical Readiness Working Group's prototype disclosures on current and anticipated financial impacts. In ED NZ CS 1, the XRB Board amended its initial proposals to align with the ISSB's ED IFRS S2. The changes were:

(a) replacing 'actual' and 'potential' with 'current' and 'anticipated';

(b) adding a disclosure requirement to explain why financial impacts are unable to be quantified if that is the case; and

(c) adding the qualifier 'reasonably expected' to anticipated financial impacts to acknowledge the uncertainty inherent in this information.

BC29. The XRB Board received feedback on ED NZ CS 1 that disclosing current and anticipated financial impacts is challenging. Respondents raised questions about the scope of the requirements and the overlap with the requirements in financial statements.

BC30. The XRB Board also received feedback that this Standard should specify whether the anticipated financial impacts were 'gross' or 'net' of an entity's planned response to climate change. The XRB Board considered the terms 'gross' and 'net' as overly simplistic and inadequately nuanced for inclusion in this Standard. However, it is the XRB Board's view that the anticipated financial impacts of the climate-related risks and opportunities (which is also referred to by the TCFD as 'exposure'[8]) should be made before an entity's planned response to climate change is included.

[8] TCFD. 2021. Implementing the recommendations of the Task Force on Climate-related Financial Disclosures. Available at https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf (see page 10).

BC31. This view was supported by feedback received that making anticipated financial impact disclosures before an entity's planned response to climate change is included, helps to ensure an entity's governance body is aware of and actively managing climate-related risks and opportunities. In addition, the XRB Board noted that paragraph 16(c) of this Standard is intended to ensure an entity is able to demonstrate it has credible resourcing plans to support the implementation of its transition plan.

BC32. The XRB Board also noted that should an entity wish to identify an expected effect that transition planning may have on an entity's anticipated financial impacts, this should be disclosed separately to the disclosure of anticipated financial impacts. If not presented separately, it may mislead primary users of the anticipated financial impacts should the transition plan not be actioned or achieved, or could encourage overconfidence in the degree to which entities can avoid financial impacts arising due to climate change through transition planning. This is because some financial impacts may be unavoidable due to the impacts of climate change, or they may be largely dependent on the actions of others.

BC33. The XRB Board noted that the ISSB proposed in ED IFRS S2 that an entity shall disclose how it expects its financial position and performance to change over time given its strategy to address significant climate-related risks and opportunities. The XRB Board decided to be less prescriptive than the ISSB with regard to anticipated financial impacts (see paragraph 15(b)). The XRB Board considered it important to be more principles-based as this is a new area of disclosure, and to allow practice to emerge. Guidance, that can be updated more regularly taking entities' practice into consideration, will also be provided on this topic.

BC34. The XRB Board decided not to include some of the more prescriptive financial impact disclosures the ISSB proposed in ED IFRS S2, such as disclosures relating to material adjustments to carrying amounts of assets and liabilities within the next financial year, and current and committed investment plans. This is due to the significant complexity of these disclosures, particularly given the challenge of connecting anticipated financial impact disclosures with the immediately following financial year. The ISSB's focus on the next financial year also takes away the ability of entities to set their own time horizons to analyse their own climate-related risks and opportunities and therefore may require substantial additional standalone analysis.

Scenario analysis

BC35. Early in the development of this Standard, the XRB Board heard that scenario analysis was one of the more challenging of the TCFD's recommended disclosures. Therefore, the XRB Board engaged directly with sectors to encourage sector-level collaboration on scenario analysis, in parallel with the development of Aotearoa New Zealand Climate Standards. This engagement was intended to ensure entities get started on scenario analysis in advance of the final standards being issued, putting entities in a position to ensure their scenario analysis disclosures are as consistent and comparable as possible, and to reduce costs and resourcing pressures. Several sector-level collaboration processes began prior to the final standards being issued.

BC36. As part of its outreach, the XRB Board emphasised the importance of taking an exploratory mindset to scenario analysis given the uncertainty posed by climate change. An entity can start qualitatively and build in quantification over time. Scenario analysis in this context is not just about identifying climate-related risks and opportunities but is also about testing the resilience of the entity's business model and strategy. Starting out qualitatively and building quantification and sophistication over time on scenario analysis is consistent with the XRB Board's approach to this Standard more broadly.

BC37. In relation to the disclosure requirements, the XRB Board initially proposed disclosing against two scenarios in the SMT consultation. Following feedback, the XRB Board added a third scenario in ED NZ CS 1. This was in response to concerns raised that two scenarios are easily seen as opposites or 'good and bad', and because exploring at least three scenarios is increasingly seen as a commonly accepted minimum (noting that some more advanced entities explore four or more scenarios). The XRB Board considered that adding a third scenario in the context of many sector-level scenario analysis processes underway is practically achievable and appropriately challenging. This is because the marginal effort required to explore three rather than two scenarios is relatively low. When using what the TCFD describe as an orthodox, systems theory-based approach, the majority of the scenario analysis workload is involved in identifying and understanding how significant and uncertain external drivers of change interact with the entity or sector being analysed. The nature and scale of these interactions will determine how climate-related risks and opportunities play out in each scenario, enabling the relatively straightforward creation of alternate scenarios based on changes in the expression of drivers.

BC38. The XRB Board also decided to amend the 'greater than 2 degrees Celsius scenario' to a '3 degrees Celsius or greater scenario' to avoid entities not exploring challenging physical risk scenarios, and to improve scenario diversity.

BC39. The XRB Board considered it important to comment on why it decided that including a 1.5 degrees Celsius temperature outcome in this Standard is appropriate given increasing questioning of the plausibility of this outcome.[9] Firstly, it is important to bear in mind the purpose of exploring a 1.5 degrees Celsius outcome. It is not explored because it is considered likely, or most likely. It is explored because it is a plausible and challenging scenario that identifies transition risks while also illustrating the benefits of a relatively benign physical risk environment. Secondly, even if a 1.5 degrees Celsius temperature outcome were deemed to be no longer plausible by the global community of climate scientists, it remains to be seen what the new global goal would be. Given the Intergovernmental Panel on Climate Change notes 'Every bit of warming matters',[10] any subsequent global goal may only be marginally higher than 1.5 degrees and still less than 2 degrees, rather than 2 degrees by default. Therefore, the 1.5 degrees Celsius goal is likely to remain relevant and worthy of exploration until the point that the XRB Board can review this Standard more generally as part of the PIR. Lastly, not including a 1.5 degrees Celsius scenario would have important implications for this Standard as it would significantly impact the ability for primary users to have comfort that entities fully understand the full spectrum of transition risks and opportunities. This includes an understanding of the implications of New Zealand achieving its stated policy aims under the Climate Change Response Act 2002.

BC40. The XRB Board considered that the scenario analysis disclosures in this Standard are relatively well aligned with the ISSB's ED IFRS S2 and the ISSB's direction of travel. The ISSB initially proposed to allow alternative approaches to scenario analysis in ED IFRS S2 such as single point forecasts, sensitivity analysis and stress tests. However, the ISSB now plans to remove these alternatives and to require scenario analysis, bringing their proposals closer to the requirements in this Standard.

BC41. The XRB Board considers that scenario analysis is an important part of this Standard. This is because the implications of scenario analysis for the entity's business model and strategy should be, due to the nature of climate change itself, profound and of critical strategic relevance to the entity. One area where the XRB Board differs from the ISSB is regarding the ISSB's proposed disclosure requirements in ED IFRS S2 on 'the results of the analysis of climate resilience'. The XRB Board decided not to include an equivalent of these proposed disclosure requirements for three reasons. First, because the results are not so much about written outputs, rather an increased understanding by the entity of the need for transformation, and the fundamental lack of resilience that most business models and strategies have to a diverse range of climate outcomes. These 'results' are therefore not likely to be in a form that primary users can easily understand or use. Second, mandating disclosure of these particular results relating to climate resilience may inadvertently lead to the use of less challenging scenario analysis. If the implications are not indicative of a lack of resilience and need for transformation, the scenario analysis is unlikely to meet the TCFD's criteria of plausible, challenging and coherent. Third and finally, the particular 'results' envisaged by the ISSB are likely to be commercially sensitive information and therefore represent a barrier to disclosure. The XRB Board considers it more important to focus on disclosures of what an entity is doing in response to what it learnt from scenario analysis. These transition planning disclosures enable an entity

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9 See for example, the UNEP 'Emissions Gap Report 2022: The Closing Window – Climate crisis' calls for rapid transformation of societies, which finds that the international community is falling far short of the Paris goals, with no credible pathway to 1.5°C in place, noting that only an urgent system-wide transformation can avoid climate disaster. Available at https://www.unep.org/resources/emissions-gap-report-2022

10 IPCC. 2018. Press Release 2018/24/PR: Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C approved by governments, 8 October 2018. Available at www.ipcc.ch/site/assets/uploads/2018/11/pr_181008_P48_spm_en.pdf

to communicate its strategic repositioning and transformation in the context of significant uncertainty and the broader transition of the global and domestic economy (see paragraphs BC 42 to BC 43). It will however monitor closely how such disclosures at an international level develop over time.

Transition planning

BC42. Transition planning is a concept that has emerged relatively recently in response to concerns that entities were setting emissions reduction targets without knowing how they would be achieved. However, the XRB Board heard strong support over the course of the consultation for transition planning disclosures as an important tool in the context of the global response to climate change. The XRB Board also heard varying views regarding the appropriate level of prescriptiveness for transition planning disclosures, such as whether they should be directly linked to a 1.5 degrees Celsius global transition pathway. The XRB Board decided that less prescription was appropriate at this time given that expectations regarding transition planning are rapidly evolving. The XRB Board also initially consulted on the separate disclosure of transition and adaptation plans as part of the SMT consultation. Although mindful of the design principle to keep this Standard principles based following moves from other international standard setters the XRB Board decided to define transition plans and transition risks more broadly to include adaptation. The intent is to enable the development and disclosure of more integrated and comprehensive transition planning that communicates the entity’s strategic response to its climate-related risks and opportunities as well as helping to deliver on any emissions reductions targets it has set.

BC43. XRB staff are currently developing non-binding transition planning guidance that will be issued in 2023. This guidance will build off similar guidance being issued globally that aims to support the integration of an entity’s emissions reduction planning and efforts to enhance climate resilience. The XRB Board will reconsider the appropriate level of specificity for transition planning disclosures as part of the PIR.

Use of terms business model, strategy and financial planning

BC44. The terms business model, strategy and financial planning are used in an important and structural way by the TCFD and ISSB. However, the XRB Board heard feedback from MIS Managers and financial institutions that the use and proposed definitions of these terms were unsuitable for their contexts. The XRB Board decided to remove the term financial planning to avoid conflicting with the typical use of the term by MIS Managers, which relates to the financial planning of investors in a financial advice context. The XRB Board also decided not to define ‘business model’ and ‘strategy’ to give the entities the flexibility to be able to apply the terms to their contexts. The XRB Board noted that this decision acknowledges the diversity of entity types this Standard applies to, for example the requirement in the Financial Markets Conduct Act 2013 that MIS Managers report ‘in respect of the scheme’.

Risk Management

Approach

BC45. The Risk Management disclosures in this Standard are very closely aligned with the TCFD recommendations in that they focus only on disclosing the processes for identifying, assessing and managing climate-related risks and do not require disclosure of the same processes for climate-related opportunities. In contrast, the ISSB’s ED IFRS S2 includes proposed disclosures on processes used to identify and prioritise climate-related opportunities. In this case, the XRB Board considered it to be most appropriate for the disclosure requirements to remain aligned with the TCFD recommendations because the processes to identify and prioritise climate-related opportunities may be commercially sensitive to entities.

Specific disclosures

BC46. The XRB Board agreed some specific disclosures that are additional to the TCFD recommendations. These are the tools and methods used, the time horizons considered, frequency of assessment and whether any parts of the value chain are excluded. The XRB Board also specified that the Risk Management disclosures are to be made for both transition and physical risks.

Parts of value chain excluded

BC47. The XRB Board's initial proposals as part of the GRM consultation included a disclosure requirement for an entity to disclose information on the value chain stages covered. The XRB Board considered that climate-related risks and opportunities relate to activities, interactions, and relationships and to the use of resources along an entity's value chain. Therefore, when considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. In the XRB Board's view, disclosure of this information would support evaluations by primary users of an entity's overall risk profile and the quality and robustness of an entity's risk management activities. However, the XRB Board received feedback that this proposal may result in voluminous disclosures that would not be useful for primary users. Therefore, the XRB Board decided to require disclosure by an entity as to whether any parts of the value chain are excluded from its processes for identifying, assessing and managing climate-related risks.

Metrics and Targets

Approach

BC48. The Metrics and Targets disclosures in this Standard are based on the TCFD recommendations, particularly the metric categories that apply to all entities. The disclosure of metrics and targets used by an entity allow primary users to understand an entity's progress in managing or adaption to climate-related risks and opportunities. This Standard, and the Methods and assumptions, and data and estimation uncertainty section in NZ CS 3, provide more detailed disclosure requirements than the TCFD in relation to some aspects, in particular GHG emissions. The XRB Board decided not to include all of the requirements proposed by the ISSB in ED IFRS S2, instead choosing to remain less prescriptive than the ISSB, particularly in the short term as practice develops.

Metric categories

BC49. Climate-related metrics can be generally categorised into two groups—those that apply to all entities regardless of industry and business model, and those that are specific to an industry. The TCFD calls these cross-industry and industry-specific metrics. The TCFD identified seven categories of cross-industry metrics. The ISSB's ED IFRS S2 also included this list of cross-industry metric categories. In selecting these cross-industry metric categories, the TCFD sought to emphasise categories that meet several criteria.

(a) Indicative of many basic aspects and drivers of climate-related risks and opportunities.

(b) Useful for understanding how an organisation is managing climate-related risks and opportunities.

(c) Widely requested by climate reporting frameworks, lenders, investors, insurance underwriters, and regional and national disclosure requirements.

(d) Key inputs for estimating financial impacts of climate change on organisations.

BC50. The XRB Board included the seven categories of cross-industry metrics identified by the TCFD (and included in the ISSB's ED IFRS S2) in the SMT consultation. The XRB Board received largely supportive feedback from the SMT consultation relating to these cross-industry metric categories. However, some feedback on ED NZ CS 1 identified confusion regarding the term 'cross-industry' and a lack of understanding that these are metric categories, not individual metrics. The XRB Board therefore decided to incorporate these seven metric categories into this Standard, but to rename them as 'metric categories' rather than 'cross-industry metrics' and clarify that they apply to all entities.

Industry-based metrics and other key performance indicators

BC51. The XRB Board decided that entities should report those industry-specific metrics that are actually used by the entity to manage its own climate-related risks and opportunities. These may be industry-specific or entity-specific metrics. The XRB Board considers that such metrics provide more of an insight into the activities and focus of the entity in managing its own specific climate-related risks and opportunities than disclosing against a predetermined list of metrics. It also aligned with the XRB Board's design principles and was supported by the majority (80%) of comments on the topic of industry-specific metrics in the SMT consultation.

BC52. Some respondents to the SMT consultation however noted that it would be useful for guidance to recommend where entities could look to identify metrics that might be suitable for their entity. The XRB Board acknowledged that the TCFD provides guidance on industry-specific metrics that is likely to be useful for management purposes and that the ISSB's ED IFRS S2 proposed an extensive list of required industry-specific metrics drawn from SASB[11] Standards. The ISSB received substantial negative feedback on the mandatory nature of this industry-specific metric list and at its October 2022 meeting tentatively agreed to classify these metrics as illustrative examples, while stating its intention to make them mandatory in the future, subject to further consultation.

Targets

BC53. The disclosure requirements for targets were drawn from the TCFD recommendations and guidance. These were largely mirrored in the ISSB's ED IFRS S2, although ED IFRS S2 contained some additional disclosure requirements, including the objective of the target and whether the target was derived using a sectoral decarbonisation approach. The XRB Board decided not to include these additional disclosure requirements in this Standard, rather to identify them in the guidance as additional items of information that an entity may wish to disclose. The XRB Board decided to group in this Standard those disclosures which relate specifically to GHG emissions targets for clarity (see paragraph 23(e)).

BC54. The SMT consultation included a proposed requirement to disclose whether an entity's GHG emissions target was science based. The purpose of this disclosure was to understand how an entity's target aligned with the current scientific and political consensus. Eleven submissions were received on the use of the term 'science based', including requests for a definition. There was some concern that only validated Science Based Targets initiative (SBTi) targets would be acceptable. In response to this feedback, the XRB Board reworded the disclosure requirement in ED NZ CS 1 to 'whether the target is aligned with science'. Seven submissions were received on the use of the words 'aligned with science'. Typical comments included 'too vague', and that it is 'not always easy to determine what is, or is not, aligned with science'.

BC55. The ISSB's ED IFRS S2 requires disclosure of how an entity's target compares with 'those created in the latest international agreement on climate change' which was defined as the latest agreement between members of the United Nations Framework Convention on Climate Change (UNFCC). At the time of the publication of ED IFRS S2, the latest such agreement was the Paris Agreement (April 2016). Its signatories agreed to limit global warming to well below 2 degrees Celsius and pre-industrial levels, and to pursue efforts to limit warming to 1.5 degrees Celsius above pre-industrial levels. ED IFRS S2 requires that an entity reference the targets set out in the Paris Agreement when disclosing whether or to what extent an entity's own targets compare to the targets in the Paris Agreement.

BC56. The XRB Board considered that the ISSB's approach was not sufficiently clear and amended the disclosure requirement in this Standard to 'the entity's view as to how the target contributes to limiting global warming to 1.5 degrees Celsius'. This links with the disclosure requirement in paragraph 13 and the Climate Change Response Act 2002 section 3(1)(aa)(i) which states 'contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5 degrees Celsius above pre-industrial levels'.

BC57. Feedback was also received from the SMT consultation about an entity's use of offsets in achieving its targets. In response to this feedback, an additional disclosure was proposed in ED NZ CS 1 on the use of offsets for those entities that choose to use them. The XRB Board

[11] Sustainability Accounting Standards Board.

also noted that the ISSB's ED IFRS S2 included disclosure on offsets in the section on transition plans. It is the XRB Board's view that transition plans should be focused on achieving gross emissions reductions, rather than achieving emissions reductions through the use of offsets. The XRB Board received a clear message during the ED consultation that transparency regarding the use of offsets was important, particularly for disclosure of the use of offsets for meeting targets. Feedback supported the XRB Board's placement of this disclosure requirement in the Metrics and Targets rather than the ISSB's placement in the Strategy section.

BC58. There was some feedback in the SMT consultation about the lack of a just transition metric. This issue was also raised in relation to targets as part of the ED NZ CS 1. For example, one respondent argued that the entity should disclose how it has incorporated the principles of equity and justice into its target, including how the entity has determined its 'fair share' of the global burden of reducing emissions. The XRB Board considers that while this is a very important topic, there are as yet no methods for assessing the equity and justice of emissions reduction targets and so it is too soon to make this a disclosure requirement. The XRB Board notes that the just transition and equity of burdens for emission reductions are receiving increasing global attention. It expects that these topics will form part of the PIR and will receive further consideration at that time.

GHG emissions

BC59. The XRB Board recognised that there are existing globally accepted and commonly used GHG emissions measurement and reporting standards, including the GHG Protocol Corporate Accounting and Reporting Standard (GHG Protocol) and ISO 140641 – Greenhouse gases. The XRB Board noted that this Standard is a disclosure standard rather than a measurement standard and confirmed it does not replicate any measurement methods in this Standard. In addition, the XRB Board did not mandate a single approach for measuring GHG emissions, but instead decided that an entity must disclose the standards it used to measure its GHG emissions. In the XRB Board's view, based on the consultation and analysis undertaken, the outcome of measurement will be close to the same regardless of the measurement standard used.

BC60. The XRB Board decided not to require an entity to use a particular consolidation approach to calculate or measure its GHG emissions (for example, equity share, operational control or financial control). While the XRB Board noted that the choice of consolidation approach can move emissions between scopes, the XRB Board concluded that with the inclusion of scope 3 value chain emissions, the total emissions disclosed will be similar regardless of the consolidation approach applied. However, the XRB Board decided that an entity must disclose the choice of the consolidation approach used to facilitate comparability.

BC61. The XRB Board decided to use the term 'gross' GHG emissions rather than 'absolute' as used by the TCFD.[12] The ISSB's ED IFRS S2 uses 'gross absolute'. The XRB Board's intention is that an entity should report its emissions excluding any removals, and excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based method. Reporting gross emissions shows the total GHG emissions attributable to an entity. The XRB Board decided that this is a transparent approach which will focus attention on emissions reductions rather than offsetting and can help to avoid allegations of greenwashing. This approach is consistent with the GRI Standard 305 disclosures. The XRB Board notes that an entity can provide additional disclosures such as market-based emissions if this is how an entity measures and manages its climate-related risks and opportunities.

BC62. This Standard requires disclosure of scope 3 GHG emissions for all entities. The requirement for an entity to disclose its scope 3 emissions was supported by most of the feedback received from the SMT consultation and the ED consultation. The scope 3 categories from the GHG Protocol have been included in the definition of scope 3. For most entities scope 3 is where the most material emissions risks and opportunities lie, and it is important for entities and primary

12 Gross emissions is a defined term.

users to understand these risks and opportunities.[13] The XRB Board also considers it is important for an entity to understand all of its scope 3 emissions in order to develop a credible transition plan.

BC63. The SMT consultation proposed disclosure of the source of GHG emissions factors, the global warming potential (GWP) rates used and a summary of exclusions. These disclosures were proposed to enable primary users to understand how GHG emissions have been calculated. These requirements were not included in the ED NZ CS 1, however submissions were received requesting that these disclosures be reinstated. In response to this feedback and acknowledging that this disclosure creates minimal additional work for entities (as this information will part of their GHG emissions measurement), the XRB Board decided to reinstate the original proposed disclosures.

BC64. The XRB Board notes that measurement standards such as 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 entities to exclude emission sources, facilities and operations under certain limited circumstances. This Standard requires any specific exclusions of sources to be disclosed with a justification for their exclusion. The XRB Board decided that the justification of exclusions is an important disclosure and has included it in this Standard.

BC65. The XRB Board proposed in the SMT consultation that an entity was required to prepare a GHG emissions report, and disclose the standards, protocols and methods that the GHG emissions report had been prepared in accordance with. The XRB Board proposed that the GHG emissions report would be an integral part of the disclosures, be required to be publicly available, and be subject to assurance. Feedback received from the SMT consultation questioned the requirement for an entity to prepare and publicly disclose a separate GHG emissions report. Some respondents argued that the requirement to prepare and publish a GHG emissions report was unnecessarily onerous (in comparison to having this information available for record keeping purposes), was not required in order to provide scope 1, 2 and 3 emissions disclosures, and would provide unnecessarily detailed information to primary users. Based on this feedback, the XRB Board removed the proposed requirement to prepare a GHG emissions report. Instead, disclosure requirements were strengthened in NZ CS 3, in particular by the addition of requirements on GHG emissions methods, assumptions and estimation uncertainty (see paragraphs 52-54 of NZ CS 3). The XRB Board's intent with the revised requirements is to allow flexibility for entities and reduce compliance costs for those entities that do not wish to prepare a more detailed standalone report.

Assurance

BC66. Section 461ZH[14] of the Amendment Act requires an entity to ensure that aspects of its climate statements that disclose GHG emissions are the subject of an assurance engagement. These assurance requirements apply to an accounting period that commences before but ends after the third anniversary of Royal Assent of the Amendment Act.

BC67. The Amendment Act received Royal Assent on 27 October 2021. This means that entities will be required to get GHG emissions disclosures assured for any accounting period that ends on or after 27 October 2024. All entities that are climate reporting entities at the issue date of Aotearoa New Zealand Climate Standards will publish at least one climate statement before 27 October 2024.

[13] Analysis performed using data from CDP's supply chain programme indicates that a given company's scope 3 emissions average some 11.5 times higher than its direct accountable emissions (CDP, 2021, Supply Chain Report 2020, available at https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/554/original/CDP_SC_Report_2020.pdf?1614160765). Among financial institutions, scope 3 emissions account for an even higher share of overall emissions, with portfolio emissions on average over 700 times higher than direct emissions (CDP, 2021, The Time to Green Finance, available at https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/741/original/CDP-Financial-Services-Disclosure-Report-2020.pdf?1619537981). For financial institutions this will mean measuring the financed emissions of a portfolio. This enables financial institutions to set targets, inform actions, and disclose progress. Understanding these emissions is crucial for portfolio alignment and decarbonisation.

[14] There are two versions of section 461ZH in the Amendment Act, in Part 2 and Part 3. This reference is to the version in Part 3.

Level of assurance

BC68. Typically, the level of assurance is determined in legislation. However, in this instance, the XRB Board specified the minimum required level of assurance as part of the climate-related disclosure framework.

BC69. The XRB Board considered the level of assurance in two main ways. First, existing practice was reviewed.[15] This analysis focused on levels of assurance for early adopters in New Zealand. For those entities that were reporting emissions at the time of the study (74), the review found that 51% do not appear to obtain assurance. Of those that did obtain assurance (36), the majority (75%) obtained assurance to a reasonable standard over their scope 1 and 2 GHG emissions, and, to a lesser extent, over some scope 3 GHG emissions where they are easy to measure, i.e., travel and waste.

BC70. However, the disclosures in this Standard include all scope 1, 2 and 3 GHG emissions. Given that certain types of emission estimates are subject to high estimation uncertainty, it may be disproportionally difficult for the assurance practitioner to obtain additional evidence to reduce the engagement risk to provide a reasonable level of assurance. In addition, the information systems and controls that underpin the GHG emissions information are often developed over time, limiting the assurance practitioner's ability to rely on the entity's controls to reduce the engagement risk. The XRB Board concluded that, at this time, the cost is likely to outweigh the benefit of increasing the minimum level of assurance from limited to reasonable. The XRB Board also noted that entities that are voluntarily obtaining assurance are early adopters and so are likely to be further advanced than most other entities in this regime.

BC71. Second, XRB staff conducted a series of expert sessions on the assurance of GHG emissions. At these sessions, concerns were raised about the financial burden of requiring reasonable assurance over certain categories of scope 3 emissions. Feedback from the SMT consultation overwhelmingly supported the level of assurance being set at limited.

BC72. The XRB Board concluded that the minimum level of assurance for GHG emissions should be set at limited assurance. The XRB Board noted that an entity may obtain reasonable assurance over some or all of its GHG emissions disclosures if it wishes.

Scope of assurance engagement

BC73. For clarity for both an entity and the assurance practitioner, the XRB Board identified the scope of the assurance engagement in this Standard. Emissions intensity disclosures are considered to be outside the scope of assurance as are any industry-specific metrics which include GHG emissions.

BC74. The SMT consultation included the assurance of a separate GHG emissions report as part of the assurance engagement. With the removal of the requirement to prepare a GHG emissions report this was also removed from the proposed assurance requirements. No feedback was received on the proposed scope of the assurance engagement from the SMT consultation or the ED consultation.

[15] Tiller, D. and Ryan, J. (2021). A recent survey of GHG emissions reporting and assurance, The Australian Accounting Review, available at https://onlinelibrary.wiley.com/doi/10.1111/auar.12364.