

June 2024

Navigating climate statements

Readers' guide

Key messages

This guide aims to support readers in understanding climate statements that have been prepared in accordance with [Aotearoa New Zealand Climate Standards](#) (Climate Standards).

Each reader's evaluations and judgements of the information contained in climate statements will depend on their individual profile, risk appetite and other relevant circumstances.

Climate statements are a new type of disclosure and it is important to keep the following in mind:

- Climate statements include disclosures about the future, which is inherently uncertain. They also include disclosures based on inputs that have varying degrees of uncertainty. What matters is the entity's approach to navigating this uncertainty, and the disclosures they make to describe and explain their judgements and estimations based on the uncertain inputs used.
- Do not consider climate statements in isolation as they do not represent a complete picture of all the entity's activities.
- It is critical to understand context when analysing an entity's performance. This includes the entity's business model, value chain, industry or sector, and the geographic locations in which it operates.
- Care should be taken with comparisons as the information in climate statements is mostly in narrative form, includes forward-looking disclosures, may be based on uncertain data, and may use different methods or assumptions for calculations.
- Just because something has a number attached to it does not necessarily make it more certain

or insightful. Qualitative information can have the same degree of certainty and usefulness as quantitative information.

- The Climate Standards require disclosure of what an entity is doing, but do not require an entity to take any action.
- The Climate Standards are based on the Task Force on Climate-related Financial Disclosures (TCFD) framework and are strongly aligned with other international standards.

In addition to the above, key questions to consider when reading climate statements include:

- Did it give you a good understanding of how climate change is currently impacting an entity, the entity's level of exposure to climate-related risks, possibilities for climate-related opportunities, and anticipated impacts on the entity if these risks and opportunities eventuated?
- Given this understanding, do you think:
 - the action (or inaction) by the entity is appropriate, taking into account their individual facts and circumstances?
 - the risk management and governance processes are appropriate?
 - the strategy adequately addresses the climate-related risks and opportunities identified?

The remainder of this document has more detail on overarching considerations and questions specific to the four main areas of disclosure.

Introduction

Users of this guide

This guide has been written with the following readers in mind:

- Primary users of climate statements, being existing and potential investors, lenders and other creditors. This could include international institutional investors, local institutional investors, retail investors, or local and international banks.
- Other users who are interested in the information contained in climate statements.

If you are interested in understanding the basics of New Zealand's mandatory Climate-related Disclosures (CRD) regime,¹ please refer to the joint FMA/XRB [Climate-related Disclosures Regime – What you need to know²](#) document.

You can also refer to other information about the CRD regime available on the XRB's [website](#) and the FMA's [CRD webpage](#).

This guide is **not** intended for preparers of climate statements. Climate reporting entities (CREs) preparing mandatory climate statements should refer to the applicable legislation,³ the Climate Standards and guidance provided by the

XRB and FMA. This document does not constitute legal advice. CREs or other persons should seek their own legal or other professional advice, if required.

Identifying climate statements prepared in accordance with the Climate Standards

Climate statements prepared in accordance with the Climate Standards are required to have a 'statement of compliance'. This will also state if any adoption provisions (exemptions from particular disclosures for a period of time) have been used.

Example illustrative compliance statement

These climate-related disclosures comply with Aotearoa New Zealand Climate Standards issued by the External Reporting Board. Entity A has elected to use Adoption Provision 6: Comparatives for metrics. This adoption provision exempts Entity A from disclosing comparative information for each metric disclosed for the immediately preceding two reporting periods.

1: The term 'CRD regime' refers to requirements provided for in primary legislation (such as the Financial Markets Conduct Act 2013 – especially Part 7A – the Financial Reporting Act 2013 and the Public Audit Act 2001), the Climate Standards issued by the XRB, and secondary legislation (such as the Financial Markets Conduct Regulations 2014 and exemptions granted by the FMA).

2: This document includes information about the purpose of disclosing climate-related information, key legislative requirements, and high-level considerations and context about the information in climate statements and the roles of the FMA, XRB and relevant government agencies.

3: Part 7A of the Financial Markets Conduct Act 2013 provides reporting obligations for CREs.

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Overarching considerations

Users must make their own judgements and assessments

This document contains some guidance and questions to consider when reading climate statements. However, each reader's evaluations and judgements will depend on their individual profile, risk appetite and other relevant circumstances. The information in this document is intended to help readers understand the information disclosed in climate statements to assist with their own judgements.

Understand what standards or frameworks have been applied

The Aotearoa New Zealand Climate Standards (Climate Standards) are based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and are strongly aligned with other international standards like the IFRS® Sustainability Disclosure Standards and the European Sustainability Reporting Standards (ESRS). However, the Climate Standards are less prescriptive than either IFRS® S2 Climate-related Disclosures or ESRS E1 Climate Change. The XRB has issued a [detailed comparison](#) between the Climate Standards and IFRS® Sustainability Disclosure Standards.

An entity could voluntarily or mandatorily publish climate-related disclosures in accordance with any other international standard or frameworks (such as those mentioned above, as well as those produced by other bodies such as the Global Reporting Initiative). In many instances the standard or framework used will be disclosed. While many of these standards or frameworks are closely aligned with the Climate Standards, they are not identical. This means that while information in the climate-related disclosures prepared by an entity in accordance with other standards or frameworks may be similar to that prepared under the Climate Standards, there may be some variation due to the different requirements.

If there is no statement of compliance with the Climate Standards, then the information is not prepared in accordance with the Climate Standards. This means comparability with other climate statements prepared in accordance with the Climate Standards may be limited.

In addition, an entity complying with the Climate Standards may make additional disclosures to meet the requirements of another international standard or framework.

Climate standards require mandatory disclosure, not mandatory action

The Climate Standards require disclosure of what an entity is doing, but do not require an entity to take any actions that are consistent with a transition to a low-emissions, climate-resilient future. For example:

- While an entity is required to disclose its greenhouse gas (GHG) emissions, it is not required to reduce these emissions.
- One of the metrics is management remuneration linked to climate-related risks and opportunities (CR&Os) in the current period; however, an entity is not required to have remuneration linked to these risks and opportunities.

However, the Climate Standards do require an entity to disclose information and be fully transparent about its action or inaction in relation to its CR&Os and impacts on its activities or investments.

Uncertainty is a key feature of climate statements

Climate statements include disclosures about the future, which is inherently uncertain. For example, scenario analysis, CR&Os, and anticipated financial impacts. What matters is the entity's approach to navigating this uncertainty.

As a topic, climate change is particularly complex and dynamic, with future outcomes that are very difficult to predict. There is significant uncertainty about the scale, speed and magnitude of the physical and transition climate-related impacts that may play out in the future.

The use of uncertain data, and reasonable estimates based upon them, is also an essential part of preparing climate statements.

An entity will not always have access to all information sources and can use estimates when data is unavailable. This is why disclosures about methods and assumptions can contain important information and insights. Information should never be taken at face value without assessing how it was obtained, and the underlying assumptions, methods and level of uncertainty. An entity's climate statements must contain a description of methods and assumptions used in the preparation of its climate-related disclosures (where they are not apparent), including the limitations of those methods and assumptions, and must disclose the sources and nature of data and estimation uncertainties.

Just because something has a number attached to it does not necessarily make it more certain or insightful. Qualitative information can have the same degree of certainty and usefulness as quantitative information.

Climate statements of similar entities are likely to be different

There are several factors to consider when comparing climate statements and understanding why an entity's climate statements might be different to those of a similar entity. These include:

- **They apply different adoption provisions.** Adoption provisions provide exemptions from making certain disclosures under the Climate Standards during initial reporting periods. For example, an entity could elect to use adoption provisions in its first reporting period such as not disclosing its scope 3 GHG emissions, the transition plan aspects of its strategy, its current financial impacts, and its anticipated financial impacts.
- **They make different materiality judgements.** An entity is only required to disclose what is material⁴ for its primary users. What is considered material for one entity may not be considered material by another, even in similar circumstances. This is a critical element of the Climate Standards.
- **Different methods and assumptions may have been used** in the preparation of an entity's climate-related disclosures. For example:
 - Scenario analysis may have used different critical uncertainties⁵ or different pathways to the temperature outcomes analysed.
 - GHG emissions could be calculated using different methods, such as different sources of emission factors or different sources of data.
- **Entities may take different approaches to applying the presentation principles.**⁶ There is no presentation template and an entity will present its climate statements in ways that best meet its primary users' needs. For example, although the Climate Standards have four thematic areas of disclosure: governance, strategy, risk management, and metrics and targets, these do not have to be identified in the climate statements. An entity must use its judgement on how to present its climate statements in a way that is useful for its primary users.
- **They partially apply the Climate Standards on a voluntary basis.** An entity that is not a CRE under the CRD regime may still voluntarily apply the Climate Standards. An entity voluntarily preparing climate statements will not be monitored by the FMA and could choose not to apply all the requirements of the Climate Standards for its reporting. Partially applying the Climate Standards is not encouraged as material information could be excluded. If all the requirements are not

4: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of an entity's climate-related disclosures.

5: The broad-scale external factors that are most influential and most uncertain are known as critical uncertainties and provide a means of differentiating scenarios. Different scenarios will explore the ways these critical uncertainties could materialise.

6: NZ CS 3 [paragraph 13](#).

applied, then the entity should not include a statement of compliance in accordance with the Climate Standards.

Care should be taken with comparisons

Given the reasons listed above as to why climate statements of similar entities are likely to be different, comparing information between climate statements of different entities should be done with caution. In some circumstances, it may be more useful to compare information provided by an entity with information it disclosed in previous reporting periods.⁷

Reading climate statements requires a different approach to reading a set of financial statements. Most of the disclosed information in financial statements is historic and quantitative. In comparison, most of the information in climate statements is in narrative form and includes future-looking information, some of it is based on uncertain data, and different methods can be used for calculations (such as for GHG emissions). This means that comparability across different entities, particularly at an individual disclosure level, can be limited. For example, many different choices can be made in the process of calculating GHG emissions, which can have a large cumulative effect on single figure metrics (such as what is presented as scope 1, 2 or 3

GHG emissions). However, you will still be able to make some high-level comparisons between entities.⁸

If comparing disclosures in climate statements between entities, some important factors to consider include:

- the sector, industry, and nature of the entity's operations (for example the physical risks facing a life insurer may be different to those of a general insurer)
- the size of the entity
- the quantitative or qualitative nature and size of risks, opportunities and impacts
- the geographic location the entity operates in, and what geographies its value chain covers
- what methods the entity has used to calculate metrics, including GHG emissions. The Climate Standards do not describe how to measure metrics, so you should look for the description of the methods and assumptions used in the climate statements before considering any comparison.

As climate-related reporting matures, standard practices are established, and common disclosure approaches evolve, comparability of climate statements may become easier for users. However, due to the subject matter, comparability is always likely to be challenging.

7: This will only be possible for future reporting periods for entities that have not previously prepared climate-related disclosures.

8: NZ CS 1 [paragraph BC6](#) and NZ CS 3 [paragraph BC17](#) outline the XRB's view on comparability.

Do not consider climate statements in isolation

Climate statements should not be considered in isolation as they do not represent a complete picture of all an entity's activities. Other disclosures such as the annual report (if prepared by an entity) and the associated financial statements should also be considered when making capital allocation decisions.

The Climate Standards require climate statements to be prepared in accordance with the principle of coherence.⁹ This requires presenting climate-related disclosures in a way that explains the context and the relationships with other disclosures of the entity. This includes coherence across climate-related disclosures within an entity's climate statements and disclosures made in an entity's financial statements. Reading both an entity's climate statements and its financial statements should provide users with a more complete picture, as each requires the disclosure of different (but in some cases connected) information. For example, an entity could have a current climate-related financial impact reported in its climate statements (for example, the financial impact from a flood event), so you would expect to see this reflected in the financial statements through disclosures such as impairments of assets, or reduction in the useful lives of assets.

9: NZ CS 3 paragraph 13.

10: ESG reporting is the disclosure of environmental, social and corporate governance data.

11: If an entity elects not to disclose scope 3 GHG emissions in its first reporting period, it doesn't need to provide any comparative information for scope 3 emissions in its second reporting period and only needs to provide one year of comparative information in its third reporting period.

Other information may also be useful and provide further context. For example, management commentary, sustainability, ESG reports,¹⁰ GHG inventory reports, and investor presentations and updates.

Two years of comparatives and a description of performance are required

The Climate Standards generally require an entity to disclose two years of comparative information for each metric and an analysis of the main trends. These trends in comparatives can be more important than the disclosed values as they show the level or rate of progress the entity is making over time.

However, there are exceptions to the requirement to disclose two years of comparatives:

- Adoption provisions allow an entity to provide no comparatives in the first reporting period and only one year of comparatives in the second¹¹.
- If an entity changes the method used to calculate a metric, it is not required to provide comparatives. Where this is the case, the entity must disclose an explanation of those changes and the effect on the current reporting period's climate-related disclosures.

Restatements are likely to be common

Restatements for previously disclosed climate-related information may be common, particularly in the earlier years of mandatory reporting as data quality evolves.

An entity may choose to make restatements due to:

- improving its data or methods over time
- finding new or improved information
- changing the nature of its activities
- changing its organisational structure (divestments or acquisitions).

Restatements are required for any material errors identified by the entity and must be corrected in the comparative information. Entities are also required to disclose an explanation of the material error and the change made.

An entity must consider its entire value chain

The Climate Standards require an entity to consider the exposure of its value chain to CR&Os.¹²

When understanding an entity's climate-related disclosures, and depending on its industry and business model, questions about its value chain could include:

- How could its investment or lending portfolios be affected by the transition to a low-emissions, climate-resilient economy? Are there any new opportunities?
- How could its suppliers or distribution channels be affected by the physical impacts (e.g. drought, cyclones or floods) of climate change?
- How could climate-related regulation or legislation change in regions that influence its suppliers and customers?
- How will it more sustainably dispose of its products and/or waste in the future?

12: Note that while the Climate Standards require an entity to consider its full value chain, other climate-related disclosure standards or frameworks may not include this requirement. This is an important element to keep in mind if comparing climate-related information between entities.

Governance and risk management disclosures

Governance

Governance disclosures provide information to help you understand both the role an entity's governance body plays in overseeing CR&Os, and the role management plays in assessing and managing those CR&Os.

When evaluating the governance disclosures, a key question that may be useful is:

whether you consider that the way the entity describes its governance and management of CR&Os is appropriate, particularly considering its exposure to CR&Os, size, activities etc.

The specific disclosures (such as how and how often governance is informed about CR&Os) should, together, give a coherent picture of the overall governance of climate change within the entity.

Risk management

These disclosures provide information to help you understand how the entity identifies, assesses, and manages climate-related risks, and how these are integrated into existing risk management processes.

Taking into consideration the level of exposure to climate-related risks, the following questions may be useful when evaluating the disclosures:

- Are climate-related risk management processes integrated into overall entity risk management processes? If so, how?
- Do the disclosures enable you to understand how the entity prioritises climate-related risks relative to other risks?
- Do the disclosures exclude any parts of the entity's value chain in relation to the identification, assessment and management of climate-related risks? What do any exclusions indicate about the sophistication of the entity's approach to risk management or their understanding of climate-related risks and opportunities?

Strategy disclosures

These disclosures provide information to help you understand how climate change is currently impacting the entity and how it may do so in the future.

These disclosures do not require an entity to have a standalone climate strategy. However, if aspects of its strategy are relevant for positioning itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state, then it must disclose these.

The following questions may be useful when evaluating the disclosures:

- Do the disclosures help you understand how the entity will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state? For example, how will it generate revenue, protect its assets, and maintain its ability to operate?
- Do the disclosures help you understand the severity of current and anticipated climate-related impacts on the entity?
- As a result of the work the entity did on scenario analysis and the CR&Os identified, do you think the entity needs to adjust its core strategy or business model? Has it indicated that it has done so?

Note that there are optional adoption provisions that provide exemptions relating to some strategy disclosures.¹³

Scenario analysis

One way to think about scenario analysis is that it is akin to the testing of a plane in a wind tunnel. These tests ensure the plane can withstand the impacts of challenging but plausible weather conditions. In the context of the Climate Standards, scenario analysis is intended to enhance the critical and strategic thinking of an entity in the face of challenging but plausible climate-related scenarios. Climate-related scenarios are not predictions of the future, but instead should test the resilience of an entity's strategy, business model and operations under different challenging but plausible futures.

The Climate Standards do not require an entity to disclose the results of the scenario analysis undertaken, i.e. how resilient their business model and strategy are to the scenarios analysed. Therefore, in isolation, the exercise of complying with the scenario analysis disclosure requirements enables the entity itself, not users, to understand how climate change may impact the entity in the future.¹⁴

However, the information disclosed about both the process the entity followed to undertake scenario analysis, and the climate-related scenarios analysed, can inform readers' evaluations and judgements about whether an entity has adequately tested the resilience of its current business model and strategy.

13: NZ CS 2 [Adoption provision 1](#), [Adoption provision 2](#) and [Adoption provision 3](#).

14: Users can find information about how an entity might be impacted by climate change in the future in other Strategy disclosures, such as CR&Os.

Several sectors in New Zealand have collaborated to create sector-level climate scenarios.¹⁵ These provide benefits to entities by acting as a bridge between global, national and entity-specific scenarios. From a reader perspective, if used by the entity, these may provide some comparability between disclosures within the sector.¹⁶

The following questions may be useful when evaluating the disclosures:

- Do the scenarios appear to adequately challenge the entity's current business model and strategy?
- How plausible do you think the scenario narratives are?
- Do you think the scenario narratives exclude any significant challenges for the entity?
- Do the scenarios, and/or the process of scenario analysis, seem tailored to the entity's specific circumstances, business model and strategy?
- Who was involved in the scenario analysis process (for example, governance body, management, experts, external stakeholders)?
- How linked was the scenario analysis process with the entity's wider strategy processes?

Identified risks and opportunities

The following questions may be useful when evaluating the disclosures:

- Do the CR&Os disclosed address the entity's particular circumstances (its activities, markets, value chain, etc.)? Were any indirect CR&Os identified?¹⁷
- How are the CR&Os disclosed spread along different time horizons? For example, has the entity focused on either short- or long-term risks, or both?
- Do you consider that the narrative appropriately reflects the level of risk for the entity?

Transition planning

In practice, transition planning is about the repositioning and transformation (where necessary) of an entity's business model and strategy, in response to CR&Os and what the entity has learnt via the scenario analysis process. It means exploring the options available, charting a pathway informed by the different risks and opportunities identified, and taking tangible actions.

15: [Sector-level-scenario-analysis | xrb.govt.nz](https://www.xrb.govt.nz)

16: However even if an entity has participated in a sector-level scenario process, it is under no obligation to use that information in its own entity-level scenario work.

17: For example, [Climate change risk assessment 2021 – Cascading systemic risks | chathamhouse.org](https://www.chathamhouse.org)

Transition planning enables entities to build resilience to critical uncertainties.¹⁸ This means planning the actions the entity will need to take to maintain its ability to operate, generate sustainable revenue, protect its assets, and finance itself in a rapidly changing world. Transition planning is about both mitigating the impact an entity is having on the environment and adapting to changing physical conditions.

An entity is required to disclose the transition plan aspects of its strategy, including how its business model and strategy might change. This does not mean an entity is required to change its business model or strategy.

There is an optional adoption provision for an entity's first reporting period, which provides an exemption from most transition planning disclosures. If an entity elects to use the adoption provision, it must provide a description of its progress towards developing the transition plan aspects of its strategy instead.

The following questions may be useful when evaluating the disclosures:

- What does the entity say it's going to do in response to disclosed CR&Os?
- Do you consider the entity is planning to take appropriate actions to ensure its long-term viability?
- Do you think the entity needs to adjust its core strategy? If so, has it indicated that it has or is planning to?
- Has the entity disclosed any targets in relation to the transition plan aspects of its strategy?

The XRB has prepared a [short document](#) listing some questions for an entity to help it get started on transition planning. These questions may also be useful when evaluating an entity's transition plan.

¹⁸: The broad-scale external factors that are most influential and most uncertain are known as critical uncertainties and provide a means of differentiating scenarios. Different scenarios will explore the ways these critical uncertainties could materialise.

Metrics and targets disclosures

These disclosures provide information to help you understand how the entity measures and manages its CR&Os. Metrics and targets may also provide a basis of comparison between entities within a sector or industry. These disclosures do not have to be in a separate section and may be incorporated where relevant into the climate statements.

The following questions may be useful when evaluating the disclosures:

- What level of vulnerability to climate-related risks is identified? What about the activity focusing on climate-related opportunities? Do you consider the way these metrics have been calculated is appropriate given what the entity has disclosed about CR&Os?
- Are you able to clearly understand the entity's GHG emissions sources and how the entity measured its emissions?
- Are the metrics and targets similar (or different) to others in the sector or industry? What has (and has not) been included in calculations?
- Have any targets been set? Do you think these targets are appropriate for the entity? How is the entity performing against these targets?

There are no required measurement methods for metrics

The Climate Standards do not require the use of any particular measurement methods for any metrics that may be disclosed in climate statements, including GHG emissions. An entity must disclose the methods and assumptions used in the preparation of metrics where these

are not apparent. For example, the entity should disclose:

- the method it followed to calculate the amount or percentage of assets or business activities vulnerable to physical risks or transition risks
- the standards and methods used for measuring its GHG emissions.

It is important to understand any differences in the underlying measurement standard or methods when comparing metrics between entities, as this could be a factor in explaining any material differences.

Considerations when understanding GHG emissions disclosures

The entity must disclose its 'gross' or 'absolute' GHG emissions. This is the amount of GHG emissions for an entity excluding any relevant removals or offsets (for example tree planting, or the purchase of carbon credits or offsets). This enables users to:

- more easily identify, assess and compare GHG emissions between reporting periods and between entities, particularly within the same industry; and
- understand the extent to which gross GHG emissions reductions are occurring.

In addition to providing totals for scope 1, scope 2 and scope 3 GHG emissions, an entity may disclose more detailed information about emissions sources if this is considered material for its primary users (for example, sub-categories of GHG emissions). An entity may also disclose information about its removals or offsets if it

considers this is material information for its primary users.

Despite the requirement for the disclosure of gross GHG emissions, specific choices made by an entity when calculating its GHG emissions disclosures may make comparisons with another entity challenging. Some aspects to consider include:

- the sector, industry, and nature of the entity's operations
- the entity's business model (for example, whether it insources or outsources activities is likely to influence what scope emissions are recorded in)
- the source of emission factors and the global warming potential (GWP) rates, and any other relevant methods and assumptions.

Scope 3 emissions must be disclosed

The Climate Standards require an entity to disclose its scope 3 GHG emissions. However, there is an adoption provision available, and an entity may choose not to disclose any of its scope 3 GHG emissions in the first reporting period.¹⁹

Scope 3 emissions usually account for more than 70 percent of a business's GHG emissions.²⁰ Scope 3 GHG emissions relate to an entity's entire value chain and include emissions associated with the entity's activities, and the resources and relationships it uses and relies on to create its products or services. In some cases, they can represent an entity's greatest GHG

emissions impacts and greatest GHG emissions reduction opportunities.

An entity's GHG emissions profile is split across scopes 1, 2 and 3. The quantity of GHG emissions within each scope will vary based on the consolidation method, business model and industry it operates in. For example, if an entity outsources parts of its business activities, GHG emissions from these activities will be reported in scope 3 rather than scope 1 or 2.

In practice, measuring scope 3 GHG emissions is a substantial process and entities will need to consider which emissions sources in its value chain are material to its primary users. Therefore, it is important that you consider what has been excluded from an entity's scope 3 GHG emissions. Exclusions should be disclosed and justified.

Measuring GHG emissions relies heavily on estimations and uncertain data

The measurement of GHG emissions, in particular scope 3, is reliant on data and estimates. Due to the nature and novelty of these measurements there can be a high level of estimation uncertainty.

Therefore, key areas users could focus on when considering how much uncertainty is involved include:

- What data and estimates did the entity use to measure its GHG emissions?
- What emissions factors and GWP rates have been used?

19: NZ CS 2 [Adoption provision 4](#).

20: [Scope 3 emissions | unglobalcompact.org.uk](#)

- Is there any quantification²¹ or qualitative narrative about data or estimation uncertainties that helps in understanding how much reliance to place on the numbers disclosed?
- Is there any important information highlighted in the independent assurance opinion?²²

To understand about how GHG emissions are measured, you can refer to the detailed guidance by the [GHG Protocol](#) and in [Measuring emissions: A guide for organisations](#) (sections 1.5.1 and 2).

To learn more about measuring scope 3 emissions, see [UN Global Compact](#).

Industry-based metrics used for management purposes should be reported

Comparing entities through industry-specific metrics can be another way to compare performance. While the Climate Standards do not require the disclosure of specific industry-based metrics, an entity must disclose them if they are relevant to its industry or business model and used to measure and manage CR&Os. These metrics can be more comparable between entities as they often have a standard calculation method and you should be able to understand the methods and assumptions that have been used.

Some examples of industry metrics include:

- portfolio exposure to assets that could become stranded
- percentage of properties, manufacturing facilities, or computing facilities (for example, data centres) located in high-risk areas (for example, exposed to sea level rise, extreme weather events, or energy insecurity)
- total energy consumed from renewable and non-renewable energy resources (for example, for high energy users)
- GHG emissions per gross written premium (for example, for insurers)
- probable maximum loss of insured products from weather-related natural catastrophes (for example, for general insurance)
- weighted average carbon intensity (WACI) of investment portfolio or portfolio alignment (for example, for investment managers)
- concentration of credit exposure to emissions-intensive assets (for example, for commercial banks).

21: For example the [Partnership for Carbon Accounting Financials \(PCAF\) Standards](#) that can be used for measuring GHG emissions associated with financial activities uses data quality scores ranging from 5 (uncertain) to 1 (certain).

22: This will be required for reporting periods ending on or after 27 October 2024.

Targets used to manage climate-related risks and opportunities

The Climate Standards do not require an entity to have specific climate-related targets. However, if it uses targets to manage CR&Os it must disclose these targets and describe its performance against them.

It is important to consider the underlying detail of targets.

The following questions may be useful when evaluating the disclosures:

- Do you consider the target to be appropriate given what the entity has disclosed elsewhere in its climate statements?
- Is the target quantifiable and measurable? What year is the progress measured from? Is the target short or long term?
- Does the entity state that it is aligned with a specific emissions reduction pathway or validated by an external party, such as SBTi?²³
- Is it clear what is included in the scope of the target? How much of the target will be achieved by the entity itself or by the actions of others? For example, for a GHG emissions reduction target, is it a gross emissions reduction target? Or will it require offsets, and if so, what type of offsets does it rely on and are these certified or verified?
- How is the entity performing against the targets?

²³: The [Science Based Targets initiative](#) (SBTi) is a charity that develops standards, tools and guidance that allow entities to set GHG emissions reduction targets in line with the latest climate science, and also provides a validation service that assesses and validates their targets.

Assurance

Assurance of GHG emissions disclosures is required

For reporting periods ending on or after 27 October 2024, a CRE that is required to report in accordance with the Climate Standards is required to obtain a minimum of limited assurance over the greenhouse gas (GHG) disclosures in its climate statements.²⁴ This includes assurance over the GHG emissions themselves as well as other information such as methods, assumptions and estimation uncertainty.

A CRE is not required to obtain assurance over other parts of its climate statements. However, a CRE may voluntarily obtain assurance over any other parts, or all, of its climate statements.

An entity voluntarily applying the Climate Standards is not required to get assurance over any of its disclosures, although it may choose to do so.

Read and consider the independent assurance report

The independent assurance report is the key output from an assurance engagement, as it documents the conclusions of the assurance practitioner's work.

It is important to read and consider the independent assurance report as it contains the following key information:

- conclusion (the conclusion reached over the work by the assurance practitioner)
- the scope of the assurance engagement, which explains what disclosures the assurance practitioner has provided its opinion on (for example, is the engagement covering GHG emissions disclosures only, or does it also cover other parts of the climate statements?)
- the respective responsibilities of the assurance practitioner and the entity's management
- whether the engagement was designed to obtain limited or reasonable assurance, and over which disclosures
- the assurance standards applied, including any professional or accreditation standards
- key matters, emphasis of matter or, in some instances, other matters provide insight in the work performed by the assurance provider, or highlight areas that require additional attention when reading the climate statements
- the existence of any relationships between the assurance practitioner and the entity (i.e. independence considerations)

²⁴: Limited assurance is a lower level of assurance than reasonable where the assurance practitioner collected enough evidence to issue a negative form of expression of the practitioner's conclusion. Therefore, if limited assurance is given, it is expressed as a 'negative' conclusion (for example, 'nothing has come to our attention to suggest the disclosures are not prepared in accordance with the climate or financial reporting standards').

In comparison, reasonable assurance is a high level of assurance that is less than absolute assurance. If reasonable assurance is given, it is expressed as a 'positive opinion' (for example, 'the disclosures are prepared, in all material respects, in accordance with the climate or financial reporting standards').

- statement that the assurance organisation is not permitted to be involved in the preparation of GHG information, as doing so may compromise independence
- the name and signature of the assurance practitioner.

Independent assurance enhances the degree of trust and confidence

Assurance means that an independent and competent person has evaluated the evidence obtained and carried out sufficient procedures to express an assurance conclusion. Assurance practitioners are required to follow the [XRB assurance standard](#) for the mandatory assurance engagement over an entity's GHG emissions disclosures in its climate statements.

The assurance organisation and the assurance team must be independent, which means they are free from conditions and relationships that a reasonable and informed third party would be likely to conclude compromised their independence, such as assuring their own work or having financial interests in the entity. Independence is critical for ensuring stakeholders can place trust and confidence in the assurance engagement.

Glossary of key terms

Term	Explanation
Climate Reporting Entity (CRE)	<p>CREs are defined in sections 461O to 461S of the Financial Markets Conduct Act 2013 (FMC Act). They comprise:</p> <ul style="list-style-type: none"> • registered banks, credit unions, and building societies with total assets (including any subsidiaries) exceeding \$1 billion as at their two preceding year-end balance dates; • MIS managers with greater than \$1 billion in total assets under management (by the manager and by other managers authorised under their market services licence) as at their two preceding year-end balance dates; • licensed insurers with total assets (including any subsidiaries) exceeding \$1 billion as at their two preceding year-end balance dates and/or annual gross premium revenue (including any subsidiaries) exceeding \$250 million in each of their two preceding accounting periods; • listed issuers of quoted equity securities (that are not excluded listed issuers) that had (quoted or unquoted) equity securities with a total value, as implied by the market price or fair value (i.e. market capitalisation), exceeding \$60 million as at their two preceding year-end balance dates; and • listed issuers of quoted debt securities (that are not excluded listed issuers) that had quoted debt securities with a total face value exceeding \$60 million at any time in their two preceding accounting periods.
Climate-related disclosures	Climate-related disclosures refer to the disclosure of climate-related information by an entity regarding its exposure to climate-related risks and opportunities, as well as its strategies for addressing these.
Climate-related disclosures (CRD) regime	<p>Climate-related disclosures regime refers to:</p> <ul style="list-style-type: none"> • requirements provided for in primary legislation (such as the Financial Markets Conduct 2013, especially Part 7A, the Financial Reporting Act 2013 and the Public Audit Act 2001) • the Climate Standards issued by the XRB, and • secondary legislation (such as the Financial Markets Conduct Regulations 2014 and exemptions granted by the FMA). <p>Background information on the CRD regime is available on the MBIE, MfE and FMA websites.</p>

Term	Explanation
Climate-related risks and opportunities (CR&Os)	<p>Climate-related risks are the potential negative impacts of climate change on an entity. These include:</p> <ul style="list-style-type: none"> • 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. • 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. <p>Climate-related opportunities are 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.</p>
Climate Standards	<p>The climate standards issued by the XRB:</p> <ul style="list-style-type: none"> • Aotearoa New Zealand Climate Standard 1 – Climate-related Disclosures (NZ CS 1) • Aotearoa New Zealand Climate Standard 2 – Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2) • Aotearoa New Zealand Climate Standard 3 – General Requirements for Climate-related Disclosures (NZ CS 3).
Climate statements	<p>Climate-related disclosures that are prepared in accordance with Climate Standards issued by the XRB.</p>
Entity	<p>An organisation applying the Climate Standards either because it is a CRE or because it voluntarily publishes climate statements that comply with the Climate Standards. (References below to independent Crown entities are separate and not connected to this definition.)</p>

Term	Explanation
External Reporting Board (XRB)	<p>The XRB is an independent Crown entity. It develops and issues financial reporting, auditing and assurance, and climate standards for for-profit, not-for-profit and public sector entities. The XRB is also able to issue guidance that relates to non-financial reporting.</p> <p>The XRB is responsible for developing and issuing the Climate Standards. It also prepares guidance to support entities to prepare climate-related disclosures in accordance with the Climate Standards.</p> <p>Further resources are available on the XRB website.</p>
Financial Markets Authority (FMA)	<p>The FMA is an independent Crown entity. Its overarching statutory purpose is to promote and facilitate the development of fair, efficient and transparent financial markets.</p> <p>The FMA is responsible for independent monitoring and enforcement of the CRD regime. Its role is to monitor whether climate statements prepared by CREs comply with Part 7A of the FMC Act and the Climate Standards. Further information is available on the FMA's website.</p>
Global warming potential (GWP)	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).
Greenhouse gas (GHG)	The greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO ₂); methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF ₃), perfluorocarbons (PFCs), and sulphur hexafluoride (SF ₆).
TCFD	The Task Force on Climate-related Financial Disclosures . The Financial Stability Board created the TCFD to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks – risks related 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.
XRB	See External Reporting Board

External Reporting Board

www.xrb.govt.nz

Financial Markets Authority

www.fma.govt.nz