Proposed 2024 Amendments to Climate and Assurance Standards

Link >> Proposed 2024 Amendments to Climate and Assurance Standards » XRB

Overview

The XRB is proposing that the following first year adoption provisions are extended for one year:

- Adoption Provision 4: Scope 3 GHG emissions *(along with related extensions to Adoption Provision 5 - Comparative information for scope 3 GHG emissions, and Adoption Provision 7 - Analysis of trends, insofar as it relates to the analysis of scope 3 GHG emissions trends)*
- Adoption Provision 2: Anticipated financial impacts
- Adoption Provision 3: Transition planning

The XRB is also proposing establishment of a new adoption provision (Adoption Provision 8) for the assurance of scope 3 GHG emissions disclosures for accounting periods ending before 31 December 2025, thus giving an additional year before the assurance over scope 3 GHG emissions disclosures is required (required from the third reporting year instead of the second). For the avoidance of doubt, scope 1 and scope 2 emissions would still require assurance from the second reporting period.

AA Insurance used all of the available adoption provisions when preparing the FY24 Climate Statements. Under the current version of the standards, we would need to disclose all of these items in our FY25 Climate Statements, however if the proposed changes are amended then these discloses would not need to be made until FY26.

At the request of Directors, AA Insurance obtained assurance over the GHG emissions disclosed in the FY24 Climate Statements voluntarily, noting this related to scope 1, scope 2 and a small number of non-complex scope 3 categories.

Question 1: Do you agree with Proposal 1 to extend Adoption Provisions 4, 5 and 7 for scope 3 GHG emissions disclosures from one accounting period to two accounting periods?

Yes. Currently AA Insurance is working towards measuring its full scope 3 footprint and, whilst this is possible by the second reporting year, it is likely the data quality and accuracy will be limited for our most material scope 3 categories.

Having an extra year will give companies more time to improve the accuracy of calculations and improve data quality. It would also likely reduce the administrative

burden of recalculating and restating emissions where new information becomes available, as it is likely that large improvements will be seen in emissions calculations in the next 12-24 months as global reporting regimes come into play. For example, AA Insurance could disclose scope 3 category 1 emissions in FY25, however this would largely be spend based (low data quality). By FY26, it is likely that more suppliers would be reporting their own emissions and therefore AA Insurance could report supplier specific emissions (higher data quality). By only requiring reporting from FY26, the administrative efforts required to explain the changes in methodologies and restatements both internally and externally would be reduced.

Furthermore, PCAF are yet to disclose guidance on a number of material streams for insurance companies. For example, no guidance for home and contents underwriting emissions is available, meaning insurance companies with material home and contents portfolios are having to develop their own calculations. This may lead to a lack of comparability where companies are using different methodologies to calculate the same subset of emissions. Extending the requirement by an extra year may allow PCAF to extend the coverage of their guidance.

Given the lack of a requirement to meet a certain level of data quality, it is possible to report all scope 3 emissions by the second reporting year with caveats. Reporting requires disclosure of limitations, estimates and uncertainties, which would show users the limitations of scope 3 disclosures. However, given that most users of the Climate Statements may not have the technical knowledge required to fully understand the limitations disclosed, it would be prudent to delay the disclosure requirement to ensure more accurate information is disclosed from the outset.

AA Insurance recommends that guidance is produced for Directors explaining how GHG emissions accounting differs from financial accounting. There is general uncertainty within the business community around the accuracy of emissions disclosures and potential restatements, which in Finacial Statement accounting are not common and usually the result of error (therefore having negative connotations). Emissions on the other hand are expected to move as methodologies mature and emissions factors change over time.

Question 2: Do you agree with Proposal 2 to add a new Adoption Provision 8 that gives relief of one accounting period before scope 3 GHG emissions assurance is mandatory?

AA Insurance has received voluntary GHG assurance over currently disclosed emissions (scope 1, scope 2 and a limited number of non-complex scope 3 categories) and plans to get assurance over any GHG emissions disclosures in the future. Disclosing unassured emissions is not within the risk appetite of the business and delaying assurance requirements over scope 3 emissions is unlikely to have an effect on our work programme.

Saying this, AA Insurance has not received assurance over any complex scope 3 categories to date and therefore does not have experience in the difficulties of assuring complex emissions with a high level of judgement and estimation uncertainty. We recommend that other entities further down the path of scope 3 assurance as best placed to advise on this area.
AA Insurance agrees that any assurance requirements should be to obtain limited assurance, rather than reasonable assurance.

As part of the XRB guidance on this matter, AA Insurance recommends that it includes guidance on how GHG audits differ from financial statement audits, as audit firms are treating these similarly despite being different in nature. AA Insurance is also seeking guidance on whether it is recommended to have the same auditor assure both the Financial Statements and the Climate Statements, or whether separate auditors should be used. Differing points of view are being heard on this matter and causing uncertainty.

Question 3: Do you agree that a one-year delay for scope 3 GHG emissions assurance is sufficient to enable systems to mature to support the availability of sufficient reliable data and to enable increased consistency across the assurance market?

Per commentary above, AA Insurance will obtain GHG assurance for any disclosed scope 3 emissions regardless of any changes to this requirement.

Question 4: Do you agree with Proposal 3 to extend Adoption Provision 2 for anticipated financial impacts from one accounting period to two accounting periods?

Yes. AA Insurance has already enlisted the help of a third-party supplier to help measure these anticipated financial impacts, however given this is a new process and the risks and opportunities may develop over time, this could be undertaken as an internal exercise only in FY25 if disclosures are delayed until FY26.

We have heard from other CREs that have already started this process that problems can arise between the financial impacts quantified within the Climate Statements and how this is treated within the Financial Statements. AA Insurance recommends that the guidance XRB plans provide specifically covers how alignment between the two documents would work. AA Insurance also welcomes guidance on whether every disclosed risk and opportunity needs to be financially quantified, as some risks and opportunities are more complex to quantify than others.

AA Insurance agrees that keeping the requirement to disclose the current financial impacts of climate change from the second reporting period is appropriate. This requirement is not as judgmental and complex and staggering of adoption provisions lapsing is useful to manage time and costs.

Question 5: Do you agree with Proposal 4 to extend Adoption Provision 3 for transition planning from one accounting period to two accounting periods?

Yes - although an extension for two accounting periods is recommended should the previous extensions also be made. Per the UK-based Transition Plan Taskforce (TPT), transition planning guidance, the transition plan should incorporate information about plans to 1) decarbonise the entity, 2) respond to climate-related risks and opportunities and 3) contribute to an economy wide transition. To integrate these elements into a transition plan, an entity must first fully understand its GHG emissions footprint and climate-related risks and opportunities, including financial quantification. Time is then needed to digest and fully understand the impacts of these items and develop a transition plan. This is a key area of risk and uncertainty for the Director community given the forward-looking commitments such as GHG reduction targets that are made as part of a transition plan. Given the potential repercussions if targets are not met, Directors need to be given sufficient time to fully understand and digest the drivers of the transition plan. For example, it is unlikely that Directors will be willing to set gross scope 3 emissions reduction targets until the emissions calculations are sufficiently accurate and reliable.

For this reason, AA Insurance believes that there should be a stepped approach, firstly requiring entities to understand and disclose scope 3 emissions and quantification of anticipated financial impacts, and secondly to take this information and develop a transition plan. Having all three of these adoption provisions lapse at the same time may mean entities have to begin developing a transition plan without fully understanding their decarbonisation goals and financial risks and opportunities. AA Insurance recommends having the adoption provision for transition planning lapsing one year later than the adoption provisions for scope 3 emissions and financial quantification of anticipated risks and opportunities. Until then, entities will still have to disclose progress towards developing a transition plan annually as part of the existing disclosure requirements.

AA Insurance also supports the need for further guidance on transition planning. Whilst the current TPT guidance is useful, it is not New Zealand based and does not take in to account that various suggested disclosures are already covered by Aotearoa's existing CRD regime. AA Insurance also recommends including guidance on what form this transition plan should take. The TPT guidance suggests a transition plan should be a standalone document; however, this may double up on the administrative burden of CREs having multiple documents containing similar information.

Other comments

One further area where further guidance from the XRB would be beneficial is the metrics disclosures in NZ CS1 para 22(c) - 22(h). Some CREs were unable to disclose all the metrics listed and instead disclosed that these metrics were not monitored by the entity. It

is unclear from the standards and from external advisory firms whether these metrics should be disclosed only if they are used by an entity or should be disclosed regardless.

If these metrics must be disclosed, and if an entity does not currently monitor them, guidance is required to determine how these should be calculated. For example, in developing the metric required under paragraph 22(h) regarding capital deployment, does this include activities purely driven by climate related risks and opportunities? Investment deployed and capital expenditure often have multiple benefits such as cost savings, customer experience etc. and are not deployed purely for climate purposes. It is unclear whether such costs should be attributed to this metric.

An overarching comment on the full consultation is that any guidance provided needs to be produced in time for the earliest adopters (December year ends) to utilise.