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30 October 2024

Submission – Proposed 2024 Amendments to Climate and Assurance Standards

1 This is a submission by Dentons on the External Reporting Board ('**XRB**') *Proposed 2024 Amendments to Climate and Assurance Standards* consultation paper dated October 2024 ('**Consultation Paper**').

About Dentons

2 Dentons is one of New Zealand's premier law firms with a legal team comprising over 100 lawyers acting on government, commercial, and financial markets projects from our offices in Wellington, Auckland, and Christchurch. We are part of Dentons, the world's largest law firm, with more than 12,000 lawyers in over 200 locations.

3 We have extensive experience in financial services law issues, with a specialist financial markets team acting for established major players as well as niche providers and new entrants to the market. We assist a number of financial institutions and financial market participants with their regulatory obligations and conduct and culture initiatives, including banks, insurers, fund managers and other climate-reporting entities ('**CREs**') affected by the climate-related disclosure regime.

General comments

4 We generally support the proposed amendments contained within the Consultation Paper and are pleased to see the XRB take a pragmatic stance in responding to the practical compliance challenges faced by CREs.

5 We welcome any transitional relief provided to CREs from the requirements of the climate-related disclosure ('**CRD**') regime given the current challenges with obtaining reliable data, the high costs of compliance with the standards, and uncertainty as to how disclosures should be made in the absence of comprehensive guidance on certain topics.

6 Our main area of concern relates to *Proposal 2: Delaying scope 3 GHG emissions assurance*. In our view, the one year extension of relief does not go far enough and additional relief should be afforded to CREs given the lack of capacity in the assurance market in New Zealand and the challenges

faced in obtaining reliable upstream and downstream data. Providing an additional three years of relief for CREs to obtain assurance over scope 3 greenhouse gas ('**GHG**') emissions is, in our view, a far more appropriate approach that will save CREs unnecessary costs and help free up resources to enable them to focus on making accurate and appropriate disclosures for end users in the meantime.

Submission questions

7 *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?*

We support Proposal 1 and agree that the extension from one accounting period to two accounting periods is appropriate.

8 *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?*

We agree in principle that further relief should be afforded to CREs from the requirement to obtain assurance over scope 3 GHG emissions, however in our view an extension of one additional accounting period does not go far enough.

In the Consultation Paper, the XRB highlights that there are currently difficulties faced by assurance practitioners in obtaining sufficiently reliable data from third parties, and providing evidence regarding the data and controls in place, or the methodology used to calculate emissions. For CREs which are fund managers, this is especially relevant as their disclosures are not based on their own emissions, but rather the emissions of the entities that their funds invest in. This could include the emissions data for potentially hundreds of different entities located across a range of jurisdictions.

These are issues that were identified prior to the release of the Consultation Paper by industry members and in some cases have been expressed since the inception of the regime. Despite the XRB's proposal for a further year of relief, concerns remain that the assurance industry will not be well-placed to provide the required assurance over disclosures in a further year's time.

New Zealand was an early adopter of implementing a CRD regime for CREs. One of the challenges flowing from this early adoption is the limited number of assurance practitioners with the requisite staff, experience and reasonable pricing structures to make obtaining assurance over scope 3 GHG emissions workable. Another is the availability and reliability of data from overseas. By comparison, in Australia we understand there is a phased implementation approach based on the size and nature of the reporting entity, where the first tranche of entities will begin reporting on data for financial reporting periods commencing from 1 January 2025, with assurance of scope 3 GHG emissions not required for that first group until financial reporting periods commencing on or after 1 July 2026. Assurance for subsequent groups, many of whom New Zealand CREs will be reliant on in terms of data collection, will not occur until even later periods.

If Proposal 2 is implemented without modification, New Zealand CREs would be required to obtain assurance over scope 3 GHG emissions well before other jurisdictions, and most significantly their Australian counterparts. For many CREs, such as fund managers, climate-related disclosures (including scope 3 GHG emissions) are based on underlying data from overseas jurisdictions. The relative immaturity of many of those overseas jurisdictions means that the data New Zealand CREs rely upon is likely to be of questionable reliability for the first few years of our CRD regime. Requiring

assurance for scope 3 GHG emissions as early as accounting periods ending on 31 December 2025 risks the extensive use of qualifications or disclaimers in assurance reports, calling into question the value of obtaining those assurances so early in the CRD regime's life cycle.

The Consultation Paper identifies a number of the concerns with the reliability of scope 3 GHG emissions data as a basis for proposing the additional one year's relief from assurance becoming mandatory. We agree with the stated rationale for relief extension, but do not believe the additional one year's relief proposed will be sufficient to enable the identified concerns to be adequately addressed.

The CRD regime was developed based on the recommendation of the Task Force on Climate-related Financial Disclosures, giving it an inherently international foundation. Even within the Consultation Paper itself, numerous references are made to Australian, European Union and other jurisdiction's CRD obligations. The Consultation Paper notes that there is a 'strong degree of alignment' between the New Zealand climate standards and Australian climate standards. Although this alignment does not necessitate that the approach to disclosure is the same, it is in our view antithetical to the interoperability and comparability of the New Zealand CRD regime and international CRD practice to require assurance over scope 3 GHG emissions as early as for accounting periods ending on or after 31 December 2025.

In our view, providing an additional three years of relief, whereby assurance of a CRE's scope 3 GHG emissions would apply only in relation to accounting periods ending on or after 31 December 2027, is a far more equitable and workable proposition for CREs and assurance practitioners alike. Providing additional time for assurance aligns with the inherently international lens required and ensures New Zealand CREs are not burdened with unduly onerous financial costs and resource allocation impacts in meeting the requirements of the CRD regime for questionable additional value.

An additional three years of relief should provide sufficient time for the assurance industry to mature along with the relevant data and disclosure practices. Allowing this additional time for international data to become more widely available will reduce the overall compliance cost for New Zealand CREs while still ensuring that New Zealand is among the first nations to implement a fully functioning CRD regime.

Finally, it is important to highlight that this is a proposal to amend an adoption provision of the CRD regime, and not the baseline requirement. For CREs, reliance on an adoption provision is optional, not mandatory. This means that for those larger entities who have the resources and/or confidence in their data to obtain assurance over their scope 3 GHG emissions, obtaining assurance is still permitted and is the default position. The provision of three years of further relief simply provides additional time for those CREs who require it to obtain assurance over information which will be disclosed to end users regardless of whether assurance is provided or not.

9 *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?*

No, for the reasons set out in response to question 2.

10 *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?*

We support Proposal 3 and agree that the extension from one accounting period to two accounting periods is appropriate.

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

We support Proposal 4 and agree that the extension from one accounting period to two accounting periods is appropriate.

Further information

12 We are happy to discuss any aspect of our feedback on the Consultation Paper.

13 Thank you for the opportunity to submit.

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