Kiwibank submission to the External Reporting Board on the Consultation Document on Proposed 2024 Amendments to Climate and Assurance Standards

Date: 30 October 2024

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Introduction

1. Kiwibank welcomes the opportunity to give feedback to the External Reporting Board (**XRB**) on its consultation document dated October 2024 on Proposed 2024 Amendments to Climate and Assurance Standards (**Consultation Document**). Kiwibank has also contributed to a submission on the Consultation Document by the New Zealand Banking Association.

2. We thank the XRB for considering and acting on feedback provided by climate reporting entities (**CREs**) to date.

3. Kiwibank strongly supports all of the proposed extensions to the Adoption Provisions.

4. We submit that the XRB should also:

   (a) extend Adoption Provision 1 (which relates to current financial impacts) by one accounting period;

   (b) publish guidance on anticipated financial impacts as soon as possible, and ensure that the guidance addresses certain key points; and

   (c) defer the requirement to obtain assurance on scope 3 greenhouse gas (**GHG**) emissions for two further accounting periods, rather than one.

Proposed extensions to Adoption Provisions

5. Kiwibank supports the XRB's proposal to extend by one accounting period the Adoption Provisions relating to disclosure of scope 3 GHG emissions, anticipated financial impacts and transition planning. Some reasons these extensions are appropriate are set out below.

Reporting on scope 3 GHG emissions

6. Financed emissions are typically the largest source of emissions for certain CREs, including banks, by a significant margin. Accurate reporting of this emissions source is therefore critical to:

   (a) primary user decision making in relation to those CREs; and

   (b) development of those CREs' transition plans.

7. However, financed emissions data is subject to considerable methodological challenge and uncertainty. Data quality will improve year on year, as methods mature. A further year's exemption from the requirement to disclose scope 3 GHG emissions would give CREs the option of deferring disclosure for another year, if they find that their first-time financed emissions data quality is so low, or uncertainties so great, as to make premature disclosure of them confusing and/or of minimal relevance to primary users.

Reporting on anticipated financial impacts

8. There is little guidance available globally or domestically for the estimation and disclosure of anticipated financial impacts.

9. A further year's extension would give more time for CREs to develop and refine their approach (including by having the benefit of forthcoming guidance). This would improve the utility of disclosures for primary users.

Transition plan

10. For certain CREs, including banks, financed emissions data of a reasonable quality is critical to the development of a meaningful transition plan. However, financed emissions data is subject to considerable methodological and data challenges.

11. Similarly, establishing a reasonable basis for estimation of anticipated financial impacts is critical to the development of a meaningful transition plan for CREs. There is significant methodological uncertainty and also a lack of regulatory guidance here.

12. Accordingly, if a CRE needs another year to achieve reasonable financed emissions data quality and/or establish a reasonable basis for estimating anticipated financial impacts, it follows that another year should be allowed to that CRE to develop and disclose its transition plan.

13. The requirement to disclose transition planning progress remains important. It means there is still meaningful disclosure available to primary users about how far a CRE is from having formed its transition plan, and how it may be approaching it.

All proposed extensions

14. In relation to all of the disclosure requirements covered by the proposed extensions, there is a risk that if underdeveloped disclosures are made in the second accounting period, significant restatements may be required in the third accounting period. This could be confusing for primary users. The proposed extensions would help mitigate this risk.

15. Additionally, the proposed extensions will not slow down the considerable efforts CREs are making to measure scope 3 GHG emissions, understand anticipated financial impacts and form transitions plans. Where CREs are ready to disclose, they can of course still do so.

16. Overall, the extensions provide an appropriate amount of time for CREs to develop better quality disclosures, without being unnecessarily long.

Adoption Provision 1 – current financial impacts

17. Adoption Provision 1 (which relates to current financial impacts) should be extended by one accounting period, in line with the proposed extension to Adoption Provision 2 (which relates to anticipated financial impacts). To determine certain current financial impacts (in particular, those arising from credit risk), banks will need to use similar methodologies and modelling to those used to determine anticipated financial impacts. Accordingly, the rationale for providing an extension to Adoption Provision 2 also supports an extension to Adoption Provision 1.

Anticipated financial impacts guidance

18. As noted above, Kiwibank supports the proposed one-year extension of Adoption Provision 2 (which relates to anticipated financial impacts). The Consultation Document notes that the XRB intends to provide guidance on anticipated financial impacts in 2025.

CREs will need time to understand and implement the guidance before they are required to disclose anticipated financial impacts.

19. While it is developing that guidance, the XRB should consider whether the length of the extension to Adoption Provision 2 remains appropriate in light of the expected timing of that guidance, and any additional work or changes of approach that guidance may necessitate for CREs.

20. We also request that the XRB provide guidance to clarify how entity climate scenario outputs can and should be used for the estimation of anticipated financial impacts. This is necessary given the FMA's Information Sheet on scenario analysis states that there should be no direct link between scenario analysis and anticipated impacts and anticipated financial impacts estimation.

Scope 3 GHG emissions assurance

21. Kiwibank strongly supports an exemption from the requirement to obtain assurance on scope 3 GHG emissions. However, that requirement should be deferred for two accounting periods.

22. CREs should not be required to obtain assurance on scope 3 GHG emissions until the accounting period after they first disclose their scope 3 GHG emissions. The extension would provide CREs with time to review and adjust their scope 3 GHG emissions reporting processes, and likely improve the quality of data, before being required to obtain assurance of them.

23. CREs could of course opt to obtain assurance the first time they disclose scope 3 GHG emissions if they are ready to do so.