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External Reporting Board
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ICNZ SUBMISSION ON PROPOSED 2024 AMENDMENTS TO CLIMATE AND ASSURANCE STANDARDS

Thank you for the opportunity to provide a submission to the External Reporting Board (**XRB**) on the consultation on proposed amendments to climate and assurance standards.

The Insurance Council of New Zealand / Te Kāhui Inihua o Aotearoa (**ICNZ**) is the representative organisation for general insurance companies in New Zealand. Our members include insurers with greater than $1 billion in total assets or annual premium income greater than $250 million, meaning they are climate-reporting entities (**CREs**).

ICNZ and our members are committed to contributing to New Zealand's transition to a decarbonised economy. Insurers support their customers impacted by climate-related natural disasters such as extreme weather events and therefore understand the urgent need to transition to a low-carbon, resilient world. A rapid transition to a low-carbon global economy is a key part of reducing long-term physical climate risks. Insurance industry CREs are generally supportive of the proposed amendments as they allow for more certainty and reliability of data and methodologies, which in turn creates confidence for transition planning and reaching emissions reduction targets. However, even with the proposed amendments, insurers understand the importance of measuring and managing climate risk and are therefore facing the challenges involved.

We have provided specific feedback in respect of the questions posed and some of our members have also provided specific feedback on areas of interest and impact to them. Overall, as a matter of principle insurers would support increasing alignment with international standards. In particular, better alignment between Australia and New Zealand would be beneficial in relation to the timeframes for disclosure requirements of Scope 3 emissions.

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, we 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. While our members are developing their capability to measure a broad range of scope 3 categories, there are limitations to the data quality and accuracy due to the availability of data and methodologies. The tools for measuring and disclosing insurance-associated emissions remain less developed than other sources such as investments and business operations.

The extra year proposed will give insurers more time to improve the accuracy of calculations and data quality. There is an added benefit of reducing administrative burden of recalculating and restating emissions where new information becomes available, as we would expect improvements in emissions calculations in the next 12-24 months as global reporting regimes become available.

We would also encourage the development of guidance 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 the impact of potential restatements, which in financial statement accounting are often the result of error and therefore perceived negatively. On the other hand, in emissions reporting, some variation over time is expected as methodologies improve, and emissions factors change.

Some of our members are subsidiaries of larger, global organisations, and are supportive of Proposal 1 as it aligns with international legislation, particularly the Australian climate disclosures regime.

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?

Yes, we are supportive of Proposal 2 to add a new Adoption Provision 8 that gives relief of one accounting period before scope 3 GHG emissions assurance is mandatory. Several of our members have indicated that they are likely to seek assurance in some or all scope 3 categories voluntarily and therefore this change would not impact their work programme. However, we acknowledge that some scope 3 categories are more complex and developing the appropriate methods will take additional time. Therefore, ICNZ members see a benefit in the ability to decide whether to disclose the assurance opinions.

We would encourage that the XRB guidance on this topic address how GHG audits differ from financial statement audits, as we have seen audit firms treat these as similar even though they are fundamentally different (as discussed above, revisions of emissions reporting are expected as data availability and accuracy improve). Along the same lines, guidance on whether it is recommended to engage the same auditor to assure both financial statements and climate statements would be beneficial as there is some uncertainty around this.

Some of our members are subsidiaries of larger, global organisations, and are supportive of Proposal 2 as it aligns with international legislation, particularly the Australian climate disclosures regime.

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?

As noted in the answer to question 2, it is likely that our members would seek assurance for at least some, if not all, disclosed scope 3 emissions regardless of the requirement. However, as the provision of high-quality data and development of consistent assurance processes will rely on many different parties, including CREs, their suppliers, and assurance providers, it is challenging to say with certainty whether a one-year delay will be sufficient. In addition, a one-year delay does not fully align with Australian legislation (which allows until the 2027 financial year).

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. Calculating the financial impacts based on climate change scenarios is a new process with a high degree of uncertainty, with risks and opportunities subject to change over time. Allowing an extra year provides additional time for CREs to develop methods of quantifying financial impacts and would result in CREs providing higher-quality and more comparable disclosures to primary users. Some CREs that have already begun this process have noted difficulties in aligning financial impacts quantified in the climate statements with the financial statements. In addition, some risks and opportunities are extremely complex to quantify. ICNZ recommends guidance on how financial impacts in climate statements should be addressed in the financial statements, as well as whether every risk and opportunity needs to be quantified (given varying degrees of complexity).

Some of our members are subsidiaries of larger, global organisations, and are supportive of Proposal 3 as it aligns with international legislation, particularly the Australian climate disclosures regime.

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. To develop robust and enduring approach transition planning, including committing to reduction targets, CREs must first have a reliable understanding of their GHG emissions, climate risks and opportunities, and anticipated impacts. Forward-looking commitments like reduction targets will involve a level of uncertainty, and reducing that uncertainty (by ensuring emissions calculations are as accurate and reliable as possible) allows CREs to have greater confidence in committing to a low-emission, climate-resilient strategic direction.

The additional accounting period to develop transition planning enables CREs to better align with strategic planning processes and establish and integrated approach.

The current timeframes require a CRE were to undertake transition planning alongside building capabilities to measure and disclose scope 3 emissions, quantifying financial impacts, and developing strategic alignment. This has the potential to put undue pressure on resources, prevent thorough assessment of data and information and deliver a varied quality of transition planning across CREs.

Some of our members are subsidiaries of larger, global organisations, and are supportive of Proposal 4 as it aligns with international legislation, particularly the Australian climate disclosures regime.

Conclusion

Thank you again for the opportunity to make this submission. Please contact Sean Fullan (sean@icnz.org.nz) if you have any questions about our submission or require further information.

Yours sincerely

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