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External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

Private Bag 115033
Shortland Street
Auckland 1140
New Zealand

Phone: +64 9 303 0700
www.deloitte.co.nz

climate@xrb.govt.nz

Dear Board Members,

Deloitte Limited Submission on the Proposed 2024 Amendments to Climate and Assurance Standards

Thank you for the opportunity to comment on the proposed amendments to the Climate and Assurance Standards, including NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* ('NZ CS 2') and NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* ('NZ SAE 1').

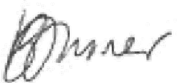
We are generally supportive of the proposals set out in the exposure draft, however, we believe that further extensions to the proposed disclosure and assurance of Scope 3 greenhouse gas ('GHG') emissions will be needed.

Procuring robust data from the value chain has proven challenging for many New Zealand Climate Reporting Entities due to the nascent stage of value chain emissions reporting. Given the size of New Zealand entities relative to their international counterparts, aligning with the preparation and assurance phasing proposed by international jurisdictions will facilitate better access to value chain emissions data, particularly where New Zealand data requests are consistent with those of their larger international counterparts.

Ultimately, it is our view that alignment with international standards both for preparers **and** assurance providers (being those issued by the International Sustainability Standards Board and International Auditing and Assurance Standards Board) is important to ensure that New Zealand entities can continue to access funding and investment from international investors with the minimal amount of effort and cost for the entity and its value chain. Adoption of international standards across jurisdictions will provide investors with comparability of reporting, creating a more even playing field for businesses, and creating an environment for technological advancement.

We have included our comments in Appendix 1 in response to the specific questions raised. Please do not hesitate to contact us should you require further clarification on any of the matters discussed.

Yours sincerely



Victoria Turner
Partner



Rikki Stancich
Partner

for Deloitte Limited

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Appendix 1

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 understand the rationale set out by the XRB and agree in principle with the proposal to extend adoption provisions 4,5 and 7. However, we recommend that the proposed extension period for adoption provisions 4, 5 and 7 be expanded by a further year (to two additional years) for the following reasons:

- As noted by the XRB, there are some significant challenges being faced by entities with extensive value chains. For example, banks and fund managers need to obtain emissions or energy consumption data from suppliers, investees, and customers, which has proven difficult to date given the complex nature of the value chain and the lack of publicly available energy data and / or assured GHG emissions data. We agree with the XRB's expectation that systems will improve as more entities around the world, and through supply chains, capture and report scope 3 GHG emissions. We also agree that there will be increased opportunities for entities in the value chain to implement assurance in a way that is shared widely with their customers, for example through service organisation control ('SOC') reports. However, we expect that this will take more than one additional year to scale sufficiently for some sectors. We therefore recommend that an additional year's extension is built in now, with future review and update as needed, to ensure that CREs have sufficient time to engage with their value chain, and to establish internal processes for receiving, validating, processing, and reporting such data.
- Research undertaken by the Deloitte UK firm identified a high level of restatements to sustainability metrics across the FTSE 100¹ in the year to 31 December 2023. 46 companies had restatements, and 29% of these were due to errors mostly related to greenhouse gas metrics. As noted in the article, this could indicate that quality and rigour around non-financial reporting is improving but also *"demonstrates the volatility of ESG reporting in the market today"*. Additional time enables entities to gather robust data, put it through their own systems and processes to challenge its accuracy and to track it over time to ensure it stands up to scrutiny before it is publicly reported to investors.
- Given the size of New Zealand entities relative to their international counterparts, aligning with the preparation and assurance phasing proposed by international jurisdictions will facilitate better access to value chain emissions data, particularly where New Zealand data requests are consistent with those of their larger international counterparts. In particular, we note that Australia's climate-related disclosures regime commences for periods beginning on or after 1 January 2025 with scope 3 emissions assurance not required until periods beginning on or after 1 January 2026. Given the close business relationships between our countries, the added pressure of Australian entities on suppliers across similar value chains will be particularly helpful in this respect. Extending the adoption provision by two more years, instead of one, will allow New Zealand CREs to align their scope 3 reporting dates with Australia.
- The GHG Protocol has recognised *"the urgent need for updated standards"*² with consultation on proposed updates planned to occur in 2025 to enable publication of the updated standards in the latter half of 2026. We understand that the ISSB is engaged in this process. While CREs will still need to obtain their scope 3 emissions data based on existing standards during this period, relieving them of the pressure to report will enable them to instead engage in the standards update process, to ensure the effective resolution of data-related issues.

¹ [Nearly half of the UK's largest companies made restatements on climate and sustainability, as new reporting rules loom | Deloitte UK](#) (2 September 2024)

² [GHG Protocol Corporate Suite of Standards and Guidance Update Process | GHG Protocol](#)

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 with the proposal to extend the GHG Scope 3 assurance exemption period. However, we suggest extending the exemption period by an additional year to align with Australia's proposed assurance phasing for Group 1 entities. In other words, we suggest that mandatory assurance over Scope 3 emissions should not come into effect until 2026 for December year-ends. This takes into consideration our recommended extension for scope 3 emissions reporting set out in our response to Question 1. In particular, we expect that it will take additional time for entities in the value chain to implement assurance in a way that is shared widely with their customers (such as through SOC reports, or assurance over unique emissions factors).

Overall, this would lead to a better outcome in terms of a reduced likelihood of qualified opinions on GHG inventories.

We also recommend that the XRB continues to monitor international developments to consider if further extensions are needed.

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 our response to question 2, we recommend extending the exemption by an additional year to align with Australia's proposed assurance phasing for Group 1 entities. In other words, we suggest that mandatory assurance over Scope 3 emissions should not come into effect until 2026 for December year-ends.

As noted in our responses to question 1 and 2, we believe that additional time is required to obtain sufficient and reliable data of a quality that can be assured, particularly for financed emissions where SOC reports (or similar) are likely to be required.

Ultimately, it is our view that alignment with international standards both for preparers **and** assurance providers (being those issued by the International Sustainability Standards Board and International Auditing and Assurance Standards Board) is important to ensure that New Zealand entities can continue to access funding and investment from international investors with the minimal amount of effort and cost for the entity and its value chain. Adoption of international standards across jurisdictions will provide investors with comparability of reporting, creating a more even playing field for businesses, and creating an environment for technological advancement.

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 understand the rationale set out by the XRB and are comfortable with the proposed extension.

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

We understand the rationale set out by the XRB and are comfortable with the proposed extension.