

External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

30 October 2024

Feedback - Proposed 2024 Amendments to Climate and Assurance Standards

Dear Sir / Madam

Ernst & Young New Zealand (EY) welcomes the opportunity to comment on the Consultation Document, *Proposed 2024 Amendments to Climate and Assurance Standards*, issued by the External Reporting Board (XRB).

We have applied our domestic and international experience to address the challenges outlined in the consultation document. The main challenges which have been described by the XRB in the consultation document include:

- Difficulties in obtaining reliable data;
- High costs of compliance with the CRD regime; and
- Insufficient guidance on certain topics.

The overall solution proposed in the XRB's Consultation Document is to delay some of the requirements of the CRD regime by an additional year. However, EY believes there may be alternative approaches which address these concerns more effectively in the longer term. If the root causes of these issues are not addressed, a one-year delay will likely mean the challenges may still exist in a year's time. Extending the adoption provisions could allow CREs to put a pause on resolving the underlying issues, only to be presented with the same questions in 12 months' time.

We understand that addressing the disclosure obligations takes significant time and resource and there needs to be a balance in the cost of compliance and the value of the disclosure. In our view, the topics which have been proposed for delay include information which are very material for most CREs. These delays could therefore be detrimental for addressing the time-critical nature of these risks. Our proposed alternative measures focus on ways to reduce compliance costs and disclosure complexities, while maintaining key parts of the disclosure. These measures also seek to address the root cause of the issues rather than postponing them into future reporting periods.

We hope a solution-focussed approach can provide better clarity to CREs on disclosure expectations in the coming reporting periods, can help reduce resource and effort for CREs, while also meeting primary user demands for additional climate information in these areas.

Our recommended alternative measures include:

- Suggesting where changes could be made to the CRD regime to ensure that balanced, cost-effective solutions are clearly promoted and supported. For example, this could include the

addition of a “without undue cost and effort” clause, as has been incorporated into both the IFRS Foundation’s ISSB standards and the Australian Sustainability Reporting Standards.

- Providing joint guidance from the regulator and standard setter clearly acknowledging that uncertainty exists in these disclosure areas (e.g. scope 3 emissions, quantification of anticipated impacts and transition planning) and this can often be appropriately addressed through a clear disclosure about the methodologies used, assumptions made and uncertainties identified.
- Providing a safe harbour for liabilities and offences related to corporate reporting. This safe harbour could apply to specific disclosures, such as scope 3 emissions and forward-looking statements (e.g. anticipated impacts and transition planning) and the safe harbour could be for a limited period of time. This would be similar to the approach taken in Australia, which identifies these as “protected statements”. This would alleviate fears over disclosing information with inherent uncertainties and reduce “greenhushing”. It would also likely reduce compliance costs associated with some legal services currently being incurred by CREs.
- Highlighting where existing tools, practices and methodologies can already mitigate some of these challenges. There is a wide range of existing domestic and international guidance which CREs could draw from. This could include providing a non-exhaustive list of acceptable and common scope 3 emissions factors and noting the UK’s Transition Plan Taskforce disclosure framework (which has recently been adopted by the ISSB) as a potential basis for transition planning aspects.
- Encouraging the on-going development of sector-specific industry norms to help move drive comparable information in areas with uncertainty. These could include standard metrics for reporting anticipated financial impacts or standard methodologies or emissions factors for reporting scope 3 emissions, as the most powerful long-term guidance for organisations to follow. These are progressing domestically and internationally through collaborations, such as Partnership for Carbon Accounting Financials (“PCAF”), the Net Zero Banker Alliance (“NZBA”) or the freely available New Zealand Green Building Council’s embodied carbon calculator.

Our response to the specific questions on which the XRB is seeking feedback on are set out below. We appreciate the opportunity to contribute to the improvement of the NZ CS and would be happy to further discuss our comments with members of the XRB and its staff.

Yours sincerely



Simon O'Connor
EY New Zealand Country Managing Partner



Pip Best
EY Partner
Climate Change and Sustainability Services

XRB Consultation - Proposed 2024 Amendments to Climate and Assurance Standards

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?

In our view, the early years of disclosing scope 3 emissions are likely to contain high-level estimations, aimed at identifying the material emissions sources within a CRE's value chain. Accuracy is likely to increase in future reporting periods for material scope 3 emissions sources. This journey of improvement only starts once scope 3 emissions reporting commences and the entity understands where further refinement is needed.

This improvement process is likely to be delayed a year by extending the adoption provision. To better balance the cost of compliance with the value of the disclosure, we see alternative measures as being more effective at addressing the root causes of the issues identified in the consultation document. These alternatives include:

- Adding a clause to the NZ CS, such as “without undue cost or effort”, as is contained in ISSB and ASRS standards, to reinforce that high-level scope 3 estimation methods are allowed where other methods are cost- or time-prohibitive.
- Providing joint guidance from the regulator and standard setter that clearly acknowledges the uncertainty associated with measuring scope 3 GHG emissions and that this uncertainty is acceptable under the Standard as long as there is clear disclosure on the methodology, assumptions and uncertainties, and while more accurate methods are not available “without undue cost and effort”.
- Developing a non-exhaustive list of emissions factors commonly used for different scope 3 emissions categories, such as spend-based emissions factors or embodied emissions factors and providing commentary on their methodology, assumptions and uncertainties of these. This would provide clarity to CREs on acceptable factors and their supporting disclosures.
- Providing guidance to reinforce the importance of including the magnitude of GHG emissions when assessing materiality. This would help to concentrate CREs' efforts on the most significant emissions sources (regardless of their scope) and ideally reduce their workload and costs. Emissions sources which are the largest in magnitude (regardless of scope), tend to be closely correlated to areas of most significant transition risk and consequently are normally of most interest to Primary Users.
- Providing a safe harbour for liabilities and offences that apply to corporate reporting for scope 3 emissions for a period of time. This would alleviate fears over disclosing high-level estimates for scope 3 emissions, which are needed in early years to first identify material emissions sources where more accurate measurement may be needed in future years.

We are concerned that delaying scope 3 emissions for another year may have negative impacts because:

- For most CREs, scope 3 emissions are the most important comparable climate-related metric for assessing the location of transition risk within the value chain (see supporting information (1) below). Delays in reporting would impact the availability of this significant

information sought by Primary Users and lead to delays in a CRE's ability to assess and respond to the financial risks of these emissions.

- There are already a wide range of allowable GHG calculation methods for scope 3 emissions at low cost (see supporting information (2) below). CREs are likely to have the same options available to them in a year's time, so this delay will not provide a material improvement in the quality or accuracy of these disclosures, nor will it provide them with lower-cost reporting options. The most substantial driver of improved reporting is likely to be the experience gained from starting this reporting journey.
- Specifically for MIS managers, GHG accounting choices are already available to them which could reduce the complexity and workload involved in estimating their financed emissions. From our domestic and international experience, MIS managers can use a range of data providers, which can provide scope 1 and 2 emissions from company reported data for ≈80% for listed equity portfolios linked to common indices. High-level estimation methods are provided for the remaining part of a portfolio which are generally suitable for measuring financed emissions using the GHG Protocol and PCAF requirements. Evidence of the methodologies and controls used by third-party data providers can typically be provided, as well as control testing reports.

Supporting information:

- 1) **Scope 3 emissions are typically the most important climate-related metrics for assessing transition risk.**

The [CDP estimated](#) that Scope 3 emissions account for an average of three-quarters of a company's emissions exposure. While the importance of Scope 3 emissions varies considerably by sector, it can approach 100% of a company's emissions. For example, Scope 3 emissions were estimated to be 99.98% on average for companies in the financial services sector. Other studies show that the [supply chains of eight sectors](#) account for half of the world's GHG emissions and that [scope 3 emissions from energy-intensive industries](#) are now increasing faster than their scope 1 and 2 emissions.

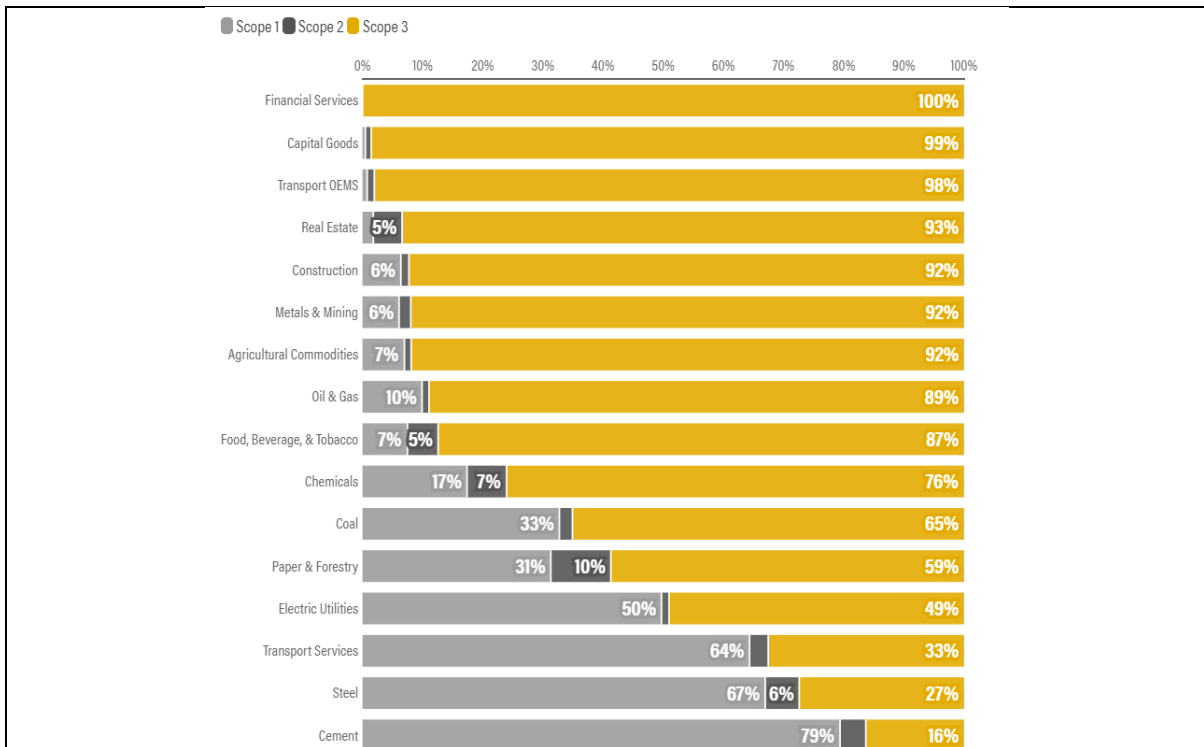


Figure 1: <https://www.wri.org/update/trends-show-companies-are-ready-scope-3-reporting-us-climate-disclosure-rule>

2) There are already a wide range of allowable GHG calculation methods for scope 3 emissions

Scope 3 emissions can already be calculated using a range of methods. The Greenhouse Gas Protocol's Technical Guidance for Calculating Scope 3 Emissions (version 1.0) provides guidance to entities on how entities can calculate emissions under each of the 15 categories of Scope 3. NZ CS requires disclosure on the methods, assumptions and uncertainties so that the reader can understand how these emissions have been measured and how accurate they are. These methods are summarised in Figure 2.

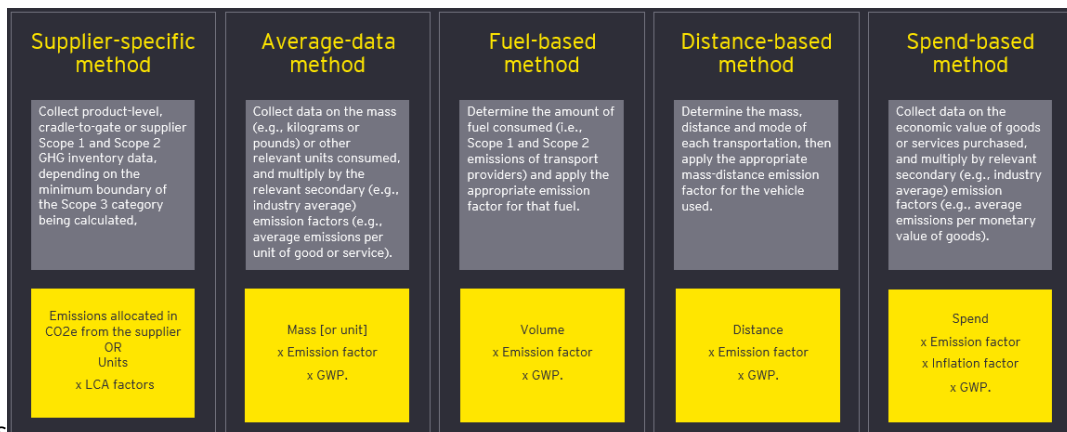


Figure 2: GHG Protocol scope 3 calculation methods

Based on our experience with GHG emissions measurement and assurance, in early reporting years, companies have tended to estimate scope 3 emissions using high-level approaches to understand where their material value chain emissions exist. Typically, this has meant entities

have used the spend-based method in their first reporting year(s). New Zealand specific spend-based emission factors were recently published by [Auckland Council](#) which CREs can use free of charge. These high-level estimation methods provide Primary Users with information on the CRE's material emissions sources and value-chain transition risks. As the CREs gain insights into material scope 3 emissions sources from these high-level estimations, they will start to understand where there is value in spending additional effort to improve the accuracy of their scope 3 measurement. For example, the construction and property sector, now has other freely available tools and scope 3 emissions factors available to more accurately measure embodied emissions in building products through tools such as the Green Building Council's Embodied Carbon Calculator.

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?

The disclosures which have already been made demonstrate there are no fundamental barriers to CREs being able to assure their scope 3 emissions. This is because a significant number of entities (including investment managers) have already obtained voluntary assurance for scope 3 emissions, both in New Zealand and internationally. This provides evidence that sufficiently reliable data already exists to provide this service. We have also seen many organisations undertake gap analysis or pre-assurance services to identify any assurance challenges before mandatory assurance is required. These pre-assurance engagements have led to significant improvements in measurement approaches, documentation & controls and disclosure quality.

We understand and appreciate that assurance obligations impose costs for reporting entities. These costs need to be considered against the benefits that come from undertaking assurance procedures over scope 3 emissions disclosures. These benefits are improved data quality and management, stronger internal understanding of scope 3 emissions and higher levels of trust in the disclosures. Assurance costs come from engaging independent assurance providers (such as EY) and from internal costs associated with implementing the systems and processes and managing the information to the level of robustness where they can be assured.

Given that it is already possible to gain assurance, we have some reservations about developing a new adoption provision for scope 3 emissions assurance that should be considered when assessing the costs against the benefits:

- Scope 3 emissions are very material for most CREs. As discussed in response to question 1, scope 3 emissions are the largest source of GHG emissions for most CREs and are where most transition risks are likely to be found. Scope 3 emission disclosures are the key comparable metrics of interest to many Primary Users for this reason.
- Removing scope 3 emissions from the assurance scope would disproportionately focus the assurance on scope 1 & 2 emissions. This would significantly reduce the value of the assurance because these emissions sources are typically a much smaller proportion of emission inventories. This would divert CRE time and resources away from their areas of most material impact. For example, if this proposal were adopted, financial institutions could end up conducting assurance procedures on less than 0.1% of their total emissions inventory.
- Third-party providers are usually now able to provide sufficient information about their methodology. The use of third-party providers to prepare financed emissions is common, particularly among MIS Managers and financial institutions. While there have been challenges in obtaining sufficient information and reliable data from these providers in

previous years, assurance over financed emissions has been successfully provided in New Zealand and internationally in the last two years, indicating that these third-party providers have already improved their processes and controls to a level where assurance is possible. CREs should ask for evidence of third-party provider's controls and check that they will provide sufficient information on their methodology to the CRE and the assurance provider when entering into an agreement to purchase their data to address concerns about whether their information would create additional assurance challenges.

- Guidance, practice and experience are likely to be a significant driver of improved consistency in the assurance market. We support the consultation's goal of increased consistency across the assurance market. Market experience is likely to be one of the most effective tools towards the standardisation of practices, which means that getting started on assurance will be important. We also recommend that the XRB considers assurance practitioner training to help drive standardisation between providers and to provide comfort that assurance practitioners have the required capability.

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?

Based on our response to question 2, assurance can already be provided over scope 3 emissions, so we do not see a rationale for extending the adoption provision further. Improvements in systems, greater data availability and increased consistency between assurance providers will be driven through the practice of delivering assurance services and assisted through guidance and training.

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

Quantification of anticipated impacts would need to be disclosed under the standard if it could be material to the Primary User. The value of this information is likely to be significant to Primary Users and the decision to extend the adoption provision should be balanced against the value of the information.

We believe in the early years of disclosing anticipated financial impacts, methodologies are likely to be high-level estimations aimed at identifying where material impacts may exist. Accuracy is likely to increase in future reporting periods as CREs better understand where these material impacts may exist and where additional resources should be deployed to improve the accuracy level. This journey of improvement only starts once reporting commences.

This improvement process is likely to be delayed a year by extending the adoption provision. To better balance the cost of compliance with the value of the disclosure to Primary Users, we see alternative measures as more effective at addressing the root causes of the issues identified in the consultation document. These alternatives include:

- Providing joint guidance from the regulator and standard setter that makes it clear that high-level estimation models are suitable for estimating anticipated financial impacts, if methods, assumptions and uncertainties are disclosed and more accurate methods are not available without undue cost and effort.

- Adding a clause to the NZ CS, such as “without undue cost or effort” (as is contained in ISSB and ASRS standards), to reinforce that high-level estimation methods are allowed for assessing anticipated financial impacts, where other methods are prohibitive or where additional costs appear to outweigh benefits.
- Providing a safe harbour for liabilities and offences that apply to corporate reporting over anticipated financial impacts disclosures for a period of time. This would alleviate fears over disclosing high-level estimates, which are needed in early years to first identify potential material areas of impacts, which would then indicate that more accurate measurement would be needed in future years.

We agree there is little guidance on the level of detail and accuracy expected when measuring anticipated financial impacts. However, our view is that this is unlikely to be resolved by extending the adoption provision by one year, due to the diversity in climate risks and opportunities which have been identified by CREs. The diversity of sector, scale, organisation structure and geographic coverage within CREs would all impact their selection of measuring approaches. Rather, we see expectations on the level of detail, accuracy and standardisation on measurement approaches evolving with time, as Primary Users drive towards industry norms and CREs understand where material impacts may exist. Given the range of methods, estimates and assumptions CREs can currently use, we question whether comprehensive guidance providing consistency across all sectors could be provided at any point in the near future, or be desirable given the different risk profiles.

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

Our understanding of the NZ CS 1 requirements to publish the transition plan aspects of its strategy, is that these disclosure requirements do not require any specific level of action. This is clearly stated in the FMA and XRB’s joint guidance “Climate-related Disclosure Regime: What you need to know” (June 2024):

“Do the requirements mean CREs must take action to mitigate or adapt to the effects of climate change?”

No. The CRD regime requires mandatory disclosure not mandatory action. The regime does not mandate any actions that must be taken or processes that must be followed, such as improving climate resilience, reducing GHG emissions, pursuing climate-related opportunities, or governing or managing climate-related risks in a certain manner (if at all). However, the information disclosed in climate statements should enable users to make their own assessment about how CREs are considering climate-related risks and opportunities, and then make informed decisions based on these assessments.”

For this reason, we do not believe that there is a need to extend the adoption provision, as those that have not yet developed their transition plan are able to state this and be compliant with the standard. The adoption provision might only present itself as a rationale for not disclosing actions to manage material climate-related risks (without needing to say what actions have actually been taken), which would be an unintended negative outcome.

We also encourage the XRB to leverage international guidance on transition planning such as the UK’s Transition Plan Taskforce Disclosure Framework, with the IFRS Foundation assuming responsibilities for providing further guidance based on this work. This will promote international consistency and likely better meet CREs and Primary User needs.