



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

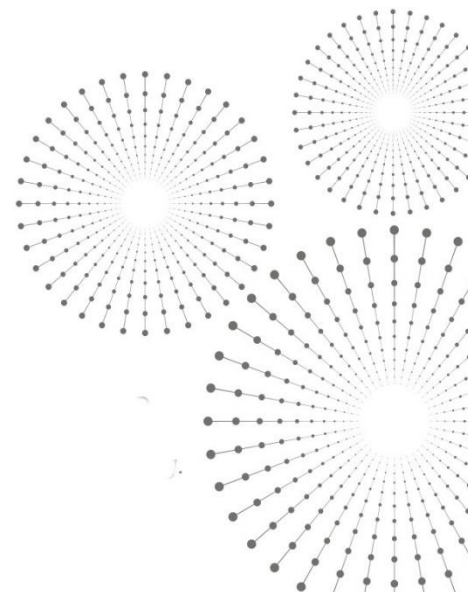
Basis for Conclusions Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2024

November 2024

This document relates to, but does not form part of, Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2024, which was approved in November 2024.

It summarises the major issues raised by respondents to Exposure Draft Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2024 and how the XRB has addressed them.

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Basis for Conclusions on Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2024

This Basis for Conclusions accompanies, but is not part of, Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2024.

Reasons for amendments

- BC1. During 2024, both climate reporting entities (CRE) and assurance practitioners highlighted that the assurance of scope 3 greenhouse gas (GHG) emissions disclosures is challenging. Scope 3 GHG emissions information can be obtained from sources outside of the entities control, for example, directly from suppliers or other parts of an entity's value chain. Systems and processes are still emerging to enable reliable data to be obtained by the CRE. Poor controls or a lack of access to systems may lead to more emphasis of matter or modified assurance conclusions for scope 3 GHG emissions disclosures.
- BC2. Data can also be provided by third-party data providers. This is common for financed emissions. In such cases, the assurance practitioner may be unable to obtain sufficient reliable information from the third-party provider or unable to get evidence regarding the data and controls in place, or the methodology used by the data provider to calculate the emissions.
- BC3. Responding to the concerns raised, in October 2024, the XRB Board issued Exposure Draft – *Amendments to Assurance Engagements over Greenhouse Gas Emissions Disclosures 2024*. In the exposure draft, the XRB Board proposed amending NZ SAE 1¹ to state that a CRE may use adoption provision 8 in NZ CS 2² so that scope 3 GHG emissions disclosures are excluded from the scope of the assurance engagement in relation to accounting periods ending before 31 December 2025.

Response to consultation

- BC4. The XRB Board received 106 written responses to the consultation. During the consultation period the XRB held six drop-in sessions, with 55 attendees across the six sessions. The XRB also held eight targeted workshops and meetings to seek feedback from the following stakeholders:
- (a) XRAP;³
 - (b) the Climate and ESG Committee of the Financial Services Council;
 - (c) Institute of Directors;
 - (d) Data providers; and
 - (e) Assurance practitioners.

Assurance of Scope 3 Greenhouse Gas Emissions Disclosures

- BC5. Most respondents indicated strong support for the XRB's proposed inclusion of a new adoption provision that gives relief before the CRE is required to obtain assurance over their scope 3 GHG emissions disclosures. Respondents supported this delay to enable entities time to put in place effective controls, processes and systems to collect and report on their scope 3 GHG emissions.
- BC6. However, there were mixed views as to whether a one-year delay would be long enough to enable systems to mature adequately to support the availability of appropriate sufficient evidence for an assurance engagement.

¹ NZ SAE 1, Assurance Engagements over Greenhouse Gas Emissions Disclosures

² NZ CS 2, Adoption of Aotearoa New Zealand Climate Standards

³ The External Reporting Advisory Panel (XRAP) provides a forum where the three XRB Boards can consult with individuals and representatives of organisations affected by XRB work.

- BC7. Some respondents agreed that one-year would be enough time, some respondents were unsure or held no view about the appropriate length of time, while some respondents did not agree that one-year would be sufficient. A few respondents reflected that their entity would not disclose their GHG emissions without obtaining assurance. Many of the respondents who wanted to delay the assurance for more than one year also requested a delay in the disclosure of scope 3 GHG emissions for longer than one year.
- BC8. The XRB Board has decided to proceed with a one-year extension to the adoption provision for scope 3 GHG emissions disclosures. The XRB Board noted the additional year will allow entities more time to put in place further controls, processes and systems to collect and report on their scope 3 GHG emissions.
- BC9. Managed investment scheme managers (MIS managers) expressed concerns about the ability to obtain reliable information from third party data providers and whether a one-year delay would be sufficient.
- BC10. However, during the consultation, XRB staff heard from third party data providers that they are moving at pace to address these matters and that the opportunity for assurance practitioners to rely on service organisation controls (SOC) type 2 reports will be available within the year. SOC type 2 reports cover the description, design and operating effectiveness of controls.
- BC11. A few respondents expressed a concern at a lack (or perceived lack) of capability and capacity in the assurance market to provide the required assurance engagements. Assurance practitioners submitted that there is adequate resource.
- BC12. The XRB Board decided to proceed with an optional delay in assurance of scope 3 GHG emissions disclosures of one year to recognise the current challenges in obtaining sufficient reliable information. For the avoidance of doubt, if the adoption provision is used by the CRE, the scope 1 and scope 2 GHG emissions disclosures shall be the subject of an assurance engagement.
- BC13. The XRB Board also understands that the Financial Markets Authority will undertake targeted consultation in December 2024 on a possible class exemption to ensure the new one-year adoption provision relating to the assurance of scope 3 GHG emissions can be implemented with complete certainty by climate reporting entities. The FMA is considering exemption relief for one year for those entities in 2025 who disclose their scope 3 GHG emissions but do not have them assured, to complement the XRB relief.
- BC14. The XRB Board noted that given the nature of scope 3 GHG emissions disclosures, there will always be inherent uncertainty and a high degree of estimation. The New Zealand climate standards (NZ CS) acknowledge and allow for this (for example, disclosures on any exclusions, disclosure of methods and assumptions and level of uncertainty). NZ SAE 1 encourages the assurance practitioner to use of a range of communication tools within the assurance report in light of this inherent uncertainty and high levels of estimation.
- BC15. The XRB is committed to supporting the implementation of the assurance over GHG emissions disclosures and is developing guidance for both preparers and assurance practitioners.