Differential climate-related reporting

Purpose of this document

This document has two purposes.

- It provides information on the External Reporting Board (XRB)'s plan to consult on Aotearoa New Zealand Climate Standards (NZ CS), focusing on the topic of differential climate-related reporting.
- It provides context to the Ministry of Business, Innovation and Employment (MBIE)'s discussion document *Adjustments to the climate-related disclosures regime*, specifically in relation to questions 4 and 11 about whether the introduction of differential reporting by the XRB would impact on your choice of preferred options.

What is differential climate-related reporting?

Section 19C of the Financial Reporting Act 2013 allows for climate standards to have general or specific application, or to differ according to differences in time and circumstance. It also states that a climate standard may be expressed to apply to all climate reporting entities (CREs) or to specified classes of CREs.

In 2023, we announced that we would commence a comprehensive post-implementation review (PIR) of NZ CS by the end of 2025. NZ CS were purposefully written in a principles-based manner to meet the needs of the breadth of CREs in the regime. One of the aims of the PIR is to determine whether this approach successfully met the needs of preparers and users (e.g., looking at elements such as the specificity of the disclosure requirements).

We have decided to bring forward the differential reporting element of the PIR because we obtained clear feedback from several submitters about the need to explore this issue sooner rather than later in response to our October 2024 consultation paper, Proposed 2024 Amendments to Climate and Assurance Standards. We also consider that the release of MBIE's discussion document makes it important for us to be clear about this change in our workplan.

In thinking about what a potential differential climate-related reporting model could look like, standards could, for example, differentiate based on:

1) entity characteristics by dividing CREs into two (or more) categories, such as:
   a) listed issuers, banks and insurers because they report on the impact that climate change has on themselves; and
   b) investment scheme managers, because they report on the impact that climate change has on the funds they manage in a fiduciary capacity
2) entity or investment scheme size, thereby providing reduced disclosure requirements for smaller entities and/or schemes.

Table 1: A possible differential reporting model

Tier/Category	Listed issuers, banks and insurers	Investment scheme managers
Tier 1: Large	Reporting in accordance with existing NZ CS or a modified form of NZ CS	Modified NZ CS to reflect different user information needs
Tier 2: Medium	Reduced disclosure requirements for cost-benefit proportionality reasons	Reduced disclosure requirements for cost-benefit proportionality reasons
Tier 3: Small	Further disclosure reductions, if feedback indicates a need	Further disclosure reductions, if feedback indicates a need

Nature of the consultation

In 2025, the XRB intends to consult on the potential use of section 19C to issue new or amended climate standards for different classes of CRE based on criteria such as entity characteristics and/or size.

We will develop concrete proposals and publish a consultation paper and exposure draft(s), with the intent that differential reporting standards would begin to be available by December 2025 and would permit eligible CREs to adopt a differential standard for accounting periods that had commenced but not ended by that date.

We anticipate consultation topics to include:

- the most appropriate categories of CREs for a differential reporting model
- what appropriate tier size thresholds may be, perhaps based on revenue for listed issuers, banks and insurers, and funds under management for investment scheme managers
- which disclosure requirements ensure an appropriate balance of costs and benefits for preparers and users (for example, whether more complex disclosure requirements such as scenario analysis, anticipated financial impacts, or scope 3 greenhouse gas emissions are necessary for all)
- whether more specific and/or targeted disclosure requirements are needed for the different classes of CRE
- the international alignment of a differential reporting model (see more below).

What is happening internationally?

International alignment of reporting standards is an important consideration for the XRB. It ensures we keep pace with international practice, enables access to international capital and reduces unnecessary regulatory burden for entities operating in multiple jurisdictions.

We have been paying close attention to the work of other jurisdictions as they have been establishing their own mandatory climate-related disclosure requirements. Other jurisdictions, including the European Union and Australia, are starting to consider how to scale climate-related reporting for entities that are not large. We will take these and other international projects into consideration as part of our workplan.

The European Union

In January 2024 the European Union standard setter (EFRAG) released exposure drafts of its voluntary sustainability reporting standards for small and medium-sized entities (VSME). The VSME standards are reduced disclosure standards compared to the core European Sustainability Reporting Standards that apply to large, listed entities. The draft VSME standard for climate change proposes disclosure on topics such as physical climate risks, scope 1 and 2 greenhouse gas emissions and energy use. It does not require disclosure on topics such as governance or scenario analysis.

Australia

The Australian Accounting Standards Board (AASB) will start a project in 2025 to consider reduced disclosure requirements for smaller CREs. The AASB intends to complete this project before 1 July 2027, which is when Group 3 entities will enter the Australian regime. We do however note that the XRB has more flexibility in what requirements are contained within standards than does the AASB, because some disclosure requirements are contained in the Australian Corporations Act 2001. Section 296D of the Australian Act requires all entities to, among other things, disclose scope 3 GHG emissions and carry out two specified scenario analyses.

Other potential sources

Other potential sources that we anticipate will help to inform our thinking include Toitū Tahua's [Starter for Ten: 10 topics for SMEs to start sustainability reporting] as well as the project to revise the climate change-related standards issued by the Global Reporting Initiative.

We are interested to know of any other work that stakeholders consider relevant.