



CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

4 May 2022

April Mackenzie
Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
WELLINGTON 6142

By email: climate@xrb.govt.nz

Dear April

Strategy, and Metrics and Targets Consultation Document

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to provide feedback on the above consultation document.

CA ANZ continues to be an advocate for, and supporter of, appropriate climate-related financial disclosures and reporting for decision-making. Better disclosure will facilitate more informed decision making, while enabling market forces to drive efficient allocation of capital and support a smooth and just transition to a net zero greenhouse gas emissions economy.

We continue to support the External Reporting Board (XRB) taking on the role of developing climate reporting standards for New Zealand, and its work to ensure that these standards align with international developments.

In particular, we support the close alignment to the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD). However, we consider it important for the XRB to identify where deviations are needed from the TCFD to tailor Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) for the New Zealand environment.

For completeness, we note that the International Sustainability Standards Board's (ISSB) consultation on climate and sustainability-related disclosure standards is the next step towards a global baseline. Global capital markets will expect entities to provide disclosures in line with ISSB standards and therefore it will be critical that NZ CS 1 meets this global baseline at a minimum. On this basis, we support and encourage the XRB's ongoing engagement with the ISSB.

We support the principles-based and forward-looking approach that the XRB is taking in developing the standards. We hope that NZ CS 1 will form the beginning of a broader reporting framework for organisations in Aotearoa New Zealand.

We encourage the XRB to continue to consider the future likelihood of a more broadly scoped framework when making key decisions about concepts and definitions to ensure such concepts and definitions will also be appropriate for subject matter beyond climate. A more broadly scoped framework could be the result of extending the number of entities that are captured or an expansion of the requirements, which could result in already captured entities having a secondary compliance burden.

The accounting profession is ready and able to play a key role in ensuring transparency and appropriate disclosure of climate-related risks and opportunities, which will maintain and enhance financial stability.

Appendix A contains our detailed responses to the specific questions raised in the consultation document. Appendix B provides more information about CA ANZ.

Should you have any questions about our submission or wish to discuss it with us, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone +61 612 8078 5451.

Yours sincerely

Peter Vial FCA
New Zealand Country Head

Karen McWilliams FCA
Business Reform Leader
Advocacy & Professional Standing

Appendix A

Responses to specific questions

1. Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?

- a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.
- b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?
- c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?

Yes, we consider the proposed Strategy section of NZ CS 1 meets primary user needs. We also consider that this section is mostly clear and unambiguous, noting our comments below. We are supportive of the principles-based approach, and consider the section adequately achieves the balance between this and prescriptiveness.

2. Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?

While we understand the rationale for including a standalone disclosure requirement (and appreciate that this represents a gap in New Zealand's current reporting landscape), we note that the framing of this requirement is very broad and not wholly connected to *climate*-related disclosures. As such, we suggest that this requirement needs to be more clearly worded such that its connection to NZ CS 1 (and the Strategy section in particular) is stronger.

Alternatively, if the intention is for entities to describe their *entire* business model and strategy, we suggest that the XRB considers whether this requirement would be best set out elsewhere given its wider relevance.

3. Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a 'greater than 2°C scenario'? Why or why not?

Yes, we agree with this approach given its consistency with the TCFD.

4. We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?

We agree with the principled approach that transition plans need not be tied to any particular target. However, we consider that the disclosure requirements should clearly state that *if* entities have used a particular target, they *should* 1) disclose this target, and 2) disclose whether the transition plan is tied to this target accordingly. We consider that the underlying intent of NZ CS 1 (and user needs) are best met with the requirement to disclose these elements if they have been used in strategic decision-making.

5. Do you have any views on the defined terms as they are currently proposed?

No specific comment.

6. The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:

- a) Do you agree with the proposed first-time adoption provisions? Why or why not?
- b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.
- c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

Yes, we support the focus of qualitative disclosures first, as allowed under the proposed first-time adoption provisions for the Strategy section of NZ CS1. Similar to our response under question 8, we consider that there may be some newer metrics for which first-time adoption provisions would be useful. We do not have any specific comment for (c).

7. Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?

- a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.
- b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?
- c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?

Yes, we consider the proposed Metrics and Targets section of NZ CS 1 meets primary user needs. We also consider that this section is mostly clear and unambiguous, noting our comments below. We are supportive of the principles-based approach, and consider the section adequately achieves the balance between this and prescriptiveness.

8. We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?

We are broadly supportive of this approach. We agree that inclusion of a required list of metrics in NZ CS 1 could result in tick box disclosures. However, to ensure that preparers are best equipped to comply with NZ CS 1, we support the XRB's intention to include reference to possible industry-specific metrics in separate guidance issued instead. For completeness, we note that references to these metrics could be in the form of links to existing resources (i.e. the TCFD recommendations or the standards issued by the ISSB) rather than the list of metrics itself. While we anticipate that some sectors will be relatively mature in their discussions about which metrics are most useful for disclosures, others may need some support in beginning this conversation. In developing guidance, we encourage the XRB to consider the maturity of these conversations both domestically and internationally and where metric expectations and reporting approaches may not be as clear.

9. We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?

While we broadly support this requirement, we note that some sectors are not yet sufficiently mature in their disclosure of scope 3 value chain emissions. This lack of maturity may be due to a lack of credible data e.g. financed emissions, as well as internal capabilities. This lack of maturity will also have flow-on effects for other sectors relying on this information.

We also encourage the XRB to provide clarity where possible of expectations regarding scope 3 disclosures and the link to materiality (i.e. while not everything is material, there remains an expectation for entities to understand their emissions profile across scope 3 categories in order to make materiality assessments). In addition, it may also be useful for the XRB to indicate within guidance the high degree of estimation that will be needed in certain areas, as a way to support new preparers.

10. Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?

We are supportive of paragraph 8. We appreciate that these requirements will be helpful for users to better understand the disclosures and present the information in such a way that will provide assurance providers with more comfort.

However, we are concerned that paragraph 9 requires the preparation of a separate greenhouse gas emissions report, which goes beyond what would be expected under a disclosure standard. If the preparation of a separate report is required, we encourage the XRB to determine where this obligation is best located. If it is included in NZ CS 1, it should be set out upfront.

For completeness, we consider that the repetition of requirement 4(a) under requirement 8(a) may be superfluous.

11. Do you have any views on the defined terms as they are currently proposed?

No specific comments.

12. The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?

While we agree with the rationale for not providing first-time adoption provisions for the Metrics and Targets section, we note that some of the TCFD metrics are relatively recently issued and yet to be in widespread use. As such, given disclosures against these metrics are still developing, we consider that it may be useful to allow for some transition towards incorporating these metrics for New Zealand entities.

13. The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?

We agree with the proposal that the minimum level of assurance for GHG emissions be set as limited. While we acknowledge that GHG emissions are being subject to reasonable assurance in other jurisdictions, there are concerns over data availability and reliability in New Zealand given the initial lack of maturity in climate reporting entities' systems and processes.

14. The XRB has proposed a definition of material (Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term). Do you agree with this definition? Why or why not?

We agree with the proposed definition of materiality and are supportive of the XRB's approach with respect to this concept.

15. Do you have any other comments on the proposed materiality section?

No specific comments.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.