

Aotearoa New Zealand Climate Standard 1

Climate-related Disclosures (NZ CS 1)

Exposure Draft

Submissions close 26 September 2022

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EXPOSURE DRAFT

Aotearoa New Zealand Climate Standard 1 **Climate-related Disclosures (NZ CS 1)**

Issued [date]

This [draft] Standard was issued on [date] by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

This [draft] Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective dates in paragraphs B1 to B2 of Appendix B.

In finalising this [draft] Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of the New Zealand Government enacting legislation to require certain entities to prepare climate-related disclosures.

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[Draft] NZ CS 1 *Climate-related Disclosures* is set out in paragraphs 1–25 and Appendices A and B. All the paragraphs, including Appendices A and B, have equal authority. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. This [draft] Standard should be read in the context of its objective, the Basis for Conclusions, [draft] NZ CS 3 *General Requirements for Climate-related Disclosures* and [draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards*.

Exposure Draft

Objective

1. In providing a consistent framework for entities to consider the *climate-related risks* and *climate-related opportunities* that climate change presents for their activities over the short, medium and long term, the objective of this [draft] Standard is to enable *primary users* to assess the merits of how entities are considering those risks and opportunities, and then make decisions based on these assessments. The ultimate aim is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

Scope

2. This [draft] Standard applies to entities which are required by the Financial Markets Conduct Act 2013 to prepare climate statements or group climate statements that comply with the climate-related disclosure framework.
3. Any entity that elects to or is otherwise directed to prepare climate statements or group climate statements is encouraged to apply all the requirements of Aotearoa New Zealand Climate Standards.¹
4. This [draft] Standard does not apply to an interim period.

Governance

Disclosure objective

5. To enable primary users to understand both the role an entity's *governance body* plays in overseeing climate-related risks and climate-related opportunities, and the role *management* plays in assessing and managing those climate-related risks and opportunities.

Disclosures

6. To achieve the disclosure objective in paragraph 5, an entity must disclose the following information:
 - (a) the identity of the governance body responsible for oversight of climate-related risks and opportunities;
 - (b) a description of the governance body's oversight of climate-related risks and opportunities (see paragraph 7); and
 - (c) a description of management's role in assessing and managing climate-related risks and opportunities (see paragraph 8).

Governance body oversight

7. An entity must include the following information when describing the governance body's oversight of climate-related risks and opportunities (see paragraph 6(b)):
 - (a) the processes and frequency by which the governance body is informed about climate-related risks and opportunities;
 - (b) how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities;
 - (c) how the governance body considers climate-related risks and opportunities when developing and overseeing implementation of the entity's strategy; and

¹ For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

- (d) how the governance body sets, monitors progress against, and oversees achievement of metrics and targets for managing climate-related risks and opportunities, including whether and if so how, related performance metrics are incorporated into remuneration policies (see also paragraph 21(h)).

Management's role

8. An entity must include the following information when describing management's role in assessing and managing climate-related risks and opportunities (see paragraph 6(c)):
 - (a) how climate-related responsibilities are delegated to management-level positions or committees, and the process and frequency by which management-level positions or committees engage with the governance body;
 - (b) the related organisational structure(s) showing where these management-level positions and committees lie; and
 - (c) the processes and frequency by which management is informed about, makes decisions on, and monitors, climate-related risks and opportunities.

Strategy

Disclosure objective

9. To enable primary users to understand how climate change is currently impacting an entity and how it may do so in the future. This includes the *scenario analysis* an entity has undertaken, the climate-related risks and opportunities an entity has identified, the anticipated *impacts* and *financial impacts* of these, and how an entity will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future.

Disclosures

10. To achieve the disclosure objective in paragraph 9, an entity must disclose:
 - (a) a description of its current climate-related impacts (see paragraph 11);
 - (b) a description of the scenario analysis it has undertaken (see paragraph 12);
 - (c) a description of the climate-related risks and opportunities it has identified over the short, medium, and long term (see paragraph 13);
 - (d) a description of the anticipated impacts of climate-related risks and opportunities (see paragraph 14); and
 - (e) a description of how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state (see paragraph 15).

Current impacts and financial impacts

11. An entity must include the following information when describing its current climate-related impacts (see paragraph 10(a)):
 - (a) its current physical and transition impacts;
 - (b) the current financial impacts of its physical and transition impacts identified in paragraph 11(a); and
 - (c) if the entity is unable to disclose quantitative information for paragraph 11(b), an explanation of why that is the case.

Scenario analysis undertaken

12. An entity must describe the scenario analysis it has undertaken to help identify its climate-related risks and opportunities and better understand the resilience of its business model and strategy. This must include a description of how an entity has analysed, at a minimum, a 1.5 degrees Celsius *climate-related scenario*, a 3 degrees Celsius or greater climate-related scenario, and a third climate-related scenario (see paragraph 10(b)).

Climate-related risks and opportunities

13. An entity must include the following information when describing the climate-related risks and opportunities it has identified (see paragraph 10(c)):
- (a) how it defines short, medium and long term and how the definitions are linked to its strategic planning horizons and capital deployment plans;
 - (b) a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact;
 - (c) whether the risks and opportunities identified are physical or transition risks or opportunities and, where relevant, their sector and/or geography; and
 - (d) how climate-related risks and opportunities serve as an input to its financial planning processes, including for capital deployment and funding.

Anticipated impacts and financial impacts

14. An entity must include the following information when describing the anticipated impacts of the climate-related risks and opportunities it has identified (see paragraph 10(d)):
- (a) the anticipated impacts of climate-related risks and opportunities reasonably expected by the entity;
 - (b) the anticipated financial impacts of climate-related risks and opportunities reasonably expected by an entity; and
 - (c) if an entity is unable to disclose quantitative information for paragraph 14(b), an explanation of why that is the case.

Transition plan aspects of its strategy

15. An entity must include the following information when describing how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state (see paragraph 10(e)):
- (a) a description of its current business model and strategy;
 - (b) the *transition plan* aspects of its strategy, including how its business model and strategy might change to address its climate-related risks and opportunities; and
 - (c) the extent to which transition plan aspects of its strategy are aligned with its financial planning processes, including for capital deployment and funding.

Risk Management

Disclosure objective

16. To enable primary users to understand how an entity's climate-related risks are identified, assessed, and managed and how those processes are integrated in existing *risk management* processes.

Disclosures

17. To achieve the disclosure objective in paragraph 16, an entity must disclose the following information for both *transition risks* and *physical risks*:
- (a) a description of its processes for identifying, assessing and managing climate-related risks (see paragraph 18); and
 - (b) a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management processes.
18. An entity must include the following information when describing its processes for identifying, assessing and managing climate-related risks (see paragraph 17(a)):
- (a) the tools and methods used to identify, and to assess the scope, size, and impact of, its identified climate-related risks;
 - (b) the short-term, medium-term, and long-term time horizons considered, including specifying the duration of each of these time horizons;
 - (c) whether any parts of the *value chain* are excluded;
 - (d) the frequency of assessment; and
 - (e) how it prioritises climate-related risks relative to other types of risks.

Metrics and Targets

Disclosure objective

19. To enable primary users to understand how an entity measures and manages its climate-related risks and opportunities. *Metrics* and *targets* also provide a basis upon which primary users can compare entities within a sector or industry.

Disclosures

20. To achieve the disclosure objective in paragraph 19, an entity must disclose:
- (a) the cross-industry metrics, which are relevant to entities regardless of industry and business model (see paragraph 21);
 - (b) industry-based metrics relevant to its industry or business model used to measure and manage climate-related risks and opportunities;
 - (c) any other key performance indicators used to measure and manage climate-related risks and opportunities; and
 - (d) the targets used to manage climate-related risks and opportunities, and performance against those targets (see paragraph 22).

Cross-industry metric categories

21. An entity must disclose cross-industry metrics for each of the categories below (see paragraph 20(a)):
- (a) *greenhouse gas (GHG) emissions: gross emissions* in metric tonnes of *carbon dioxide equivalent (CO₂e)* classified as (see paragraph 23):
 - (i) *scope 1*;
 - (ii) *scope 2*;
 - (iii) *scope 3*;
 - (b) *GHG emissions intensity*;
 - (c) transition risks: amount or percentage of assets or business activities vulnerable to transition risks;
 - (d) physical risks: amount or percentage of assets or business activities vulnerable to physical risks;
 - (e) climate-related opportunities: amount or percentage of assets, or business activities aligned with climate-related opportunities;
 - (f) capital deployment: amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities;
 - (g) *internal emissions price*: price per metric tonne of CO₂e used internally by an entity; and
 - (h) remuneration: management remuneration linked to climate-related risks and opportunities in the current period, expressed as a percentage, weighting, description or amount (see also paragraph 7(d)).

Targets

22. An entity must include the following information when describing the targets used to manage climate-related risks and opportunities, and performance against those targets (see paragraph 20(d)):
- (a) the time frame over which the target applies;
 - (b) any associated *interim targets*;
 - (c) the *base year* from which progress is measured;
 - (d) a description of performance against the targets; and
 - (e) for each GHG emissions target:
 - (i) whether the target is an *absolute target* or *intensity target*;
 - (ii) whether the target is aligned with science, and if so, whether it has been validated by a third party; and
 - (iii) the extent to which the target relies on offsets, whether the offsets are verified or certified, and if so, under which scheme or schemes.

GHG emissions

23. An entity must disclose the following in relation to its GHG emissions (see paragraph 21(a)):
- (a) a statement describing the recognised standard or standards that its GHG emissions have been measured in accordance with;
 - (b) the GHG emissions consolidation approach used: equity share, financial control, or operational control; and
 - (c) a summary of specific exclusions of sources, facilities and/or operations with a justification for their exclusion.

Assurance of GHG emissions

24. Legislation requires that the disclosure of an entity's GHG emissions as required by Aotearoa New Zealand Climate Standards are the subject of an assurance engagement. This [draft] Standard requires that this assurance engagement is a limited assurance engagement at a minimum.
25. For the avoidance of doubt, the following information required by Aotearoa New Zealand Climate Standards is subject to an assurance engagement:
 - (a) GHG emissions: gross emissions in metric tonnes of CO₂e classified as (see paragraph 21(a)):
 - (i) scope 1;
 - (ii) scope 2;
 - (iii) scope 3;
 - (b) additional requirements for the disclosure of GHG emissions (see paragraph 23);
 - (c) GHG emissions methodologies, assumptions and estimation uncertainty (see NZ CS 3 *General Requirements for Climate-related Disclosures* paragraphs 51 to 53).

Appendix A

Defined terms

This appendix is an integral part of [draft] NZ CS 1 *Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

| | |
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| absolute target | A target defined by a change in absolute GHG emissions over time. For example, reducing scope 1 GHG emissions by 50% by 2030 from a 2019 base year. |
| base year | An historical datum (a specific year or an average over multiple years) against which an entity's metric is tracked over time. |
| climate-related risks | The potential negative impacts of climate change on an entity. See also the definitions of physical risks and transition risks. |
| climate-related opportunities | The potentially positive climate-related outcomes for an entity. Efforts to mitigate and adapt to climate change can produce opportunities for entities, such as through resource efficiency and cost savings, the adoption and utilisation of low-emissions energy sources, the development of new products and services, and building resilience along the value chain. |
| climate-related scenario | A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Climate-related scenarios are not intended to be probabilistic or predictive, or to identify the 'most likely' outcome(s) of climate change. They are intended to provide an opportunity for entities to develop their internal capacity to better understand and prepare for the uncertain future impacts of climate change. |
| carbon dioxide equivalent (CO₂e) | The universal unit of measurement to indicate the global warming potential of each of the seven GHGs, expressed in terms of the global warming potential of one unit of carbon dioxide for 100 years. It is used to evaluate releasing (or avoiding releasing) any GHGs against a common basis. |
| emissions intensity | Intensity ratios express GHG emissions impact per unit of physical activity or unit of economic output. A physical intensity ratio is suitable when aggregating or comparing across that have similar products. An economic intensity ratio is suitable when aggregating or comparing across businesses that produce different products. A declining intensity ratio reflects a positive performance improvement. Intensity ratios are also often called normalised environmental impact data. Examples of intensity ratios include product emission intensity (for example, tonnes of GHG emissions per electricity generated); service intensity (for example, GHG emissions per function or service); and sales intensity (for example, emissions per sales). |
| financial impacts | The translation of impacts into current or anticipated impacts on financial performance, financial position and cash flows. |
| governance body | A board, investment committee or equivalent body charged with governance. |
| greenhouse gas (GHG) | The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO ₂); methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF ₃), perfluorocarbons (PFCs), and sulphur hexafluoride (SF ₆). |

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| gross emissions | Emissions are the release of GHGs into the atmosphere. Gross emissions are total GHG emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. Gross scope 2 emissions must be calculated using the location-based methodology. Removals should be reported separately. |
| impacts | The effects (also referred to as consequences or outcomes) of climate change occurring for an entity. These effects will, in turn, depend on the impacts of climate change on the broader socioeconomic and ecological systems an entity operates within (including an entity's value chain). |
| intensity target | A target defined by a change in the ratio of emissions to a metric over time. For example, reducing tonnes CO _{2e} per \$ revenue by 48% by 2025 from a 2018 base year. |
| interim target(s) | A short-term milestone between an entity's medium-term or long-term target and the current period. |
| internal emissions price | A monetary value on GHG emissions that an entity uses internally to guide its decision-making process in relation to climate-related impacts, risks and opportunities. |
| management | Executive or senior management positions that are generally separate from the governance body. |
| metric(s) | A quantity indicative of the level of historical, current, and forward-looking climate-related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against targets over the duration of the period for which a target is set. |
| physical risks | Risks related to the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns, such as sea level rise. |
| primary users | Existing and potential investors, lenders and other creditors. |
| risk management | A set of processes that are carried out by an entity's governance body and management to support the achievement of an entity's objectives by addressing its risks and managing the combined potential impact of those risks. |
| scenario analysis | A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. Engaging in this process helps an entity to identify its climate-related risks and opportunities and develop a better understanding of the resilience of its business model and strategy. |
| scope 1 | Direct GHG emissions from sources owned or controlled by the entity. |
| scope 2 | Indirect GHG emissions from consumption of purchased electricity, heat, or steam. |
| scope 3 | Other indirect GHG emissions not covered in scope 2 that occur in the value chain of the reporting entity, including upstream and downstream GHG emissions. Scope 3 categories are purchased goods and services, capital goods, fuel-related and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold products, downstream leased assets, franchises, and investments. |

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|-------------------------|--|
| target(s) | A specific level, threshold, or quantity of a metric that an entity wishes to meet over a defined time horizon in order to achieve an entity's overall climate-related ambition and strategy. |
| transition plan | An aspect of an entity's overall strategy that describes an entity's targets and actions for its transition towards a low-emissions, climate-resilient future. |
| transition risks | Risks related to the transition to a low-emissions, climate-resilient global and domestic economy, such as policy, legal, technology, market and reputation changes associated with the mitigation and adaptation requirements relating to climate change. |
| value chain | The full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end of life. Relevant activities, resources and relationships include those in an entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which an entity operates. |

Terms defined in Aotearoa New Zealand Climate Standards and used in this [draft] Standard with the same meaning

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|---|---|
| Aotearoa New Zealand Climate Standards | Standards issued by the External Reporting Board which comprise the climate-related disclosure framework. |
| climate statements | For the purposes of this [draft] Standard has the same meaning as 'climate statements' as defined in the Financial Reporting Act 2013. |
| climate-related disclosures | Disclosures about climate-related risks and opportunities that are useful to primary users when they assess, and make decisions about, an entity's enterprise value, including information about its governance, strategy and risk management, and related metrics and targets. |
| climate-related disclosure framework | For the purposes of this [draft] Standard, climate-related disclosure framework has the same meaning as 'climate-related disclosure framework' as defined in the Financial Reporting Act 2013. |
| group climate statements | For the purposes of this [draft] Standard has the same meaning as 'group climate statements' as defined in the Financial Reporting Act 2013. |
| interim period | A reporting period shorter than a full year. |

Appendix B

Effective date

This appendix is an integral part of NZ CS 1 *Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

Effective date

- B1. Other than paragraph 24 to 25, an entity must apply this [draft] Standard for annual reporting periods beginning on or after [1 January 2023].
- B2. Assurance of GHG emissions (see paragraphs 24 to 25) is effective for reporting periods that end on or after 27 October 2024.

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Contents: Basis for Conclusions on [draft] NZ CS 1 *Climate-related Disclosures*

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Basis for Conclusions on [draft] NZ CS1 *Climate-related Disclosures*

This Basis for Conclusions accompanies, but is not part of, [draft] NZ CS 1 *Climate-related Disclosures*.

Introduction

- BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing [draft] NZ CS 1 *Climate-related Disclosures* as part of the climate-related disclosure framework for Aotearoa New Zealand.²

Reasons for issuing this [draft] Standard

- BC2. In September 2020, the New Zealand Government announced its intention to implement mandatory reporting on climate-related risks and opportunities. Transparent and comparable disclosures relating to climate-related risks and opportunities are intended to contribute to the shift towards a low-emissions, climate-resilient future. They do so by enabling investors to make more informed capital allocation decisions about the climate-related risks and opportunities of existing and potential investments.
- BC3. The New Zealand Government signalled that the reporting would be based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD recommendations are a leading framework for climate-related disclosures and were endorsed by the New Zealand Government in 2019.
- BC4. In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (the Act) was passed and received Royal Assent. As a result, the XRB was given the mandate to issue climate standards as part of a climate-related disclosure framework.

Approach

- BC5. When the XRB Board started its project to develop a climate-related disclosure framework for Aotearoa New Zealand, it also developed several design principles to guide its process. The XRB Board was aware of the relatively ambitious timeframe it had set for delivering the framework (i.e., intending to issue the framework by December 2022) and that having defined parameters and principles would assist. The design principles included that:
- (a) the XRB would be guided by the qualitative characteristics of information that are useful for decision making: relevance, faithful representation (information being complete, neutral, and free from error), comparability, verifiability, timeliness and understandability;
 - (b) NZ CS 1 would be principles-based and succinct, with decisions about what is in NZ CS 1 and what is in accompanying guidance to be made on a case-by-case basis;
 - (c) the set of standards and associated guidance would be developed based on the recommendations of the TCFD, with any additions beyond what is contained within the TCFD suite of documents made as best practice evolves and with a view to future proofing the standard;
 - (d) the set of standards and associated guidance would be developed with a user needs focus (meaning that the disclosures must be useful to existing and potential investors, lenders and other creditors (primary users));³ and
 - (e) understanding of te ao Māori in relation to climate-related disclosures is being developed at a framework level across the XRB to inform our work on wider sustainability reporting and this understanding would inform NZ CS 1 as it is able.

² Note that some of the content in this Basis for Conclusions applies to the climate-related disclosure framework as a whole.

³ See the Basis for Conclusions for [draft] NZ CS 3 for more information on the primary user definition.

- BC6. For the entirety of [draft] NZ CS 1, the XRB Board aims to achieve an appropriate mix of principles-based disclosures, including flexibility for entity-specific disclosures, and more prescriptive disclosures that provide comparability (for example, relating to scenario analysis or the disclosure of cross-industry metrics). This attempt to balance principles and rules-based disclosures has been carried out in alignment with our design principles.
- BC7. The XRB Board initially proposed that the climate-related disclosure framework would comprise at least two standards (collectively referred to as Aotearoa New Zealand Climate Standards) and one authoritative notice. However, based on the desire to keep NZ CS 1 concise, and to enable both general requirements and principles to be included in Aotearoa New Zealand Climate Standards, the XRB Board proposed an updated framework in March 2022.
- (a) Aotearoa New Zealand Climate Standards 1: *Climate-related Disclosures* (NZ CS 1).
 - (b) Aotearoa New Zealand Climate Standards 2: *First-time Adoption of Aotearoa New Zealand Climate Standards* (NZ CS 2).
 - (c) Aotearoa New Zealand Climate Standards 3: *General Requirements for Climate-related Disclosures* (NZ CS 3).
- BC8. The XRB Board also reaffirmed in March 2022 its earlier decision made in 2021 that staff guidance would be issued to accompany Aotearoa New Zealand Climate Standards where needed, given the principles-based approach to the development of the standards.
- BC9. The XRB Board established two groups to support the development of the climate-related disclosure framework: an XRB Project Steering Group⁴ to provide standard-setting guidance, and an External Advisory Panel (EAP).⁵ The intent of the EAP was to advise on technical matters particularly those relating to the practical application and implementation of the framework. XRB staff also held many discussions, workshops and sessions with preparers, experts and advisors on topics ranging from sector-level scenario construction to GHG emissions.
- BC10. The XRB Board have had the added challenge of developing the climate-related disclosure framework in a rapidly evolving international environment. Since the XRB Board started its project, international developments include the:
- (a) TCFD issuing new guidance and amendments to its original recommendations;
 - (b) International Sustainability Standards Board (ISSB) being established;
 - (c) United States Securities and Exchange Commission (US SEC) releasing their proposed framework for mandatory climate-related disclosures for public consultation; and
 - (d) European Commission launching a public consultation on their first set of draft European Sustainability Reporting Standards (ESRS).
- BC11. The developments that have the most bearing on the initial approach adopted by the XRB Board in developing Aotearoa New Zealand Climate Standards are the establishment of the ISSB and the subsequent issue by the ISSB of two proposed standards: draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and draft IFRS S2 *Climate-related Disclosures*.
- BC12. While the XRB Board has retained the TCFD as its base for developing [draft] Aotearoa New Zealand Climate Standards, it acknowledges the need for alignment with ISSB while still developing requirements that are appropriate for Aotearoa New Zealand. As a result, in some cases the XRB Board has decided to align more closely with the requirements in the ISSB draft standards, rather than with the original TCFD recommendations and guidance.⁶

⁴ The Project Steering Group comprises Jacqueline Cheyne (Chair of the Project Steering Group and member of the XRB Board), Michele Embling (Chair of the XRB Board), Jane Taylor (Deputy Chair of the XRB Board) and April Mackenzie (Chief Executive of the XRB).

⁵ The External Advisory Panel comprises Annabell Chartres (PwC), Alison Howard (Wellington City Council), Adrian McDonald (University of Canterbury), Darren Beatty (Te Rūnanga o Ngāi Tahu Group), Karl Hickey (ANZ Bank Ltd), Belinda Storey (Climate Sigma), Dale Scott (Onepointfive Ltd) and Jonathan Keate (Office of the Auditor-General).

⁶ Noting that the ISSB's standards are also in draft form and are not intended to be issued as final standards until the end of 2022.

Consultation

- BC13. As part of the due process for developing standards, the XRB Board has a statutory obligation to consult with stakeholders before issuing a standard. It has consulted early and widely in recognition of being among the first in the world to create a mandatory climate-related disclosure regime.
- BC14. In October 2021, the XRB Board consulted on the proposed Governance and Risk Management sections of [draft] NZ CS 1. The XRB Board received 67 formal responses to the Governance and Risk Management Consultation Document (GRM consultation). The XRB Board also considered informal responses from social media and events with the XRB participating in over 20 events during the consultation period. The XRB presented to more than 1600 people and received over 100 questions and comments from social media and events. A GRM consultation feedback document was published in February 2022.
- BC15. In March 2022 the XRB Board consulted on the other two main sections of [draft] NZ CS 1: Strategy, and Metrics and Targets. It also consulted on the level of assurance for GHG emissions disclosures, and a proposed definition of, and a draft section on, materiality (which it proposed to include in NZ CS 3). The XRB Board received 66 formal responses to the Strategy, and Metrics and Targets Consultation Document (SMT consultation). The XRB ran a series of deep-dive webinars on the proposed Strategy, and Metrics and Targets proposals. As with the previous consultation the XRB also met with stakeholders to discuss the proposals and receive informal feedback.

Post-implementation review

- BC16. A post-implementation review (PIR) is a tool used by standard setters to look back at how well a Standard is performing in practice after it has been in use for some time. PIRs allow standard setters to look at a number of things, including: Have the Standard's objectives been achieved? Are the requirements on the most difficult or contentious issues performing as intended? Have new issues emerged since the Standard was issued? Are the compliance costs consistent with expectations?
- BC17. As discussed above, the XRB Board has consulted extensively in developing Aotearoa New Zealand Climate Standards. As a result of this consultation, the XRB Board is aware that the proposed disclosure requirements are substantial, but equally, that they are being demanded by primary users to inform their decision making. Importantly, the XRB Board's aim is for the disclosures made by entities to be high quality and meet the disclosure requirements from the outset, however, the XRB Board is mindful that the underlying practices within entities will become more sophisticated over time.
- BC18. The XRB Board acknowledges nonetheless that consultation is not a substitute for real-life application experience. The XRB Board have therefore committed to begin a PIR of the climate-related disclosure framework no later than December 2025. During the period between issuing the framework and the PIR, the XRB Board can issue educational materials in order to help with understanding any disclosure requirements.

Governance

Approach

- BC19. The proposed Governance disclosures are based on the TCFD recommendations. The TCFD recommendations are based on the premise that primary users of climate-related disclosures are interested in understanding the role an entity's board plays in overseeing climate-related risks and opportunities as well as management's role in assessing and managing those climate-related risks and opportunities. Such information supports evaluations of whether climate-related risks and opportunities receive appropriate attention from the governance body and management.

- BC20. However, draft NZ CS 1 does include more detailed disclosure requirements in addition to the TCFD recommendations in relation to some aspects of the governance and management of climate-related risks and opportunities. An example is adding the proposed disclosure on how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities. The XRB Board has added these disclosures to meet the information needs of primary users.

GRM consultation

- BC21. The XRB Board received feedback from the GRM consultation that while the use of the term 'board' aligned with the TCFD recommendations, a more generic term should be used in the [draft] Standard such as 'governance body' which would have broader relevance to those entities that do not have a board. The XRB Board agreed with the feedback received and replaced all references to 'board' with 'governance body'. This amendment will accommodate other governing bodies such as an investment committee of a manager of a registered managed investment scheme (MIS manager). The XRB Board also proposed an additional disclosure for an entity to disclose the identity of the governance body responsible for oversight of climate-related risks and opportunities.
- BC22. In the GRM consultation document the XRB Board noted the calls from primary users for more information about board skills and competencies in relation to providing oversight of climate-related risks and opportunities. The XRB Board proposed a requirement for an entity to disclose how a board accesses expertise on climate-related risks and opportunities. Feedback received on the GRM consultation, in particular from investor bodies, wanted the XRB Board to strengthen this disclosure. Responding to the feedback received, the XRB Board amended the disclosure requirement to require disclosure of 'how the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities'. The XRB Board acknowledges that in the early years of the regime, this disclosure is likely to reflect an entity's progress in capacity building and developing competencies.
- BC23. The XRB Board highlighted in the GRM consultation that it had proposed a disclosure on how related performance metrics are incorporated into remuneration policies (and also noted that this disclosure was in the TCFD guidance under the Metrics and Targets section). The XRB Board received mixed feedback on this disclosure, with some respondents concerned with the level of prescriptiveness. The XRB Board has decided to keep this proposed disclosure as, in its view, it provides information to primary users on how climate-related targets are embedded throughout an entity and that management is being held accountable for achieving those targets. However, responding to the feedback received, the XRB Board amended this proposed disclosure to make it explicit that the disclosure relating to incorporating performance metrics into remuneration policies is a disclosure of 'whether and if so, how' these metrics are incorporated. The XRB Board notes that the ISSB's draft climate standard contains this disclosure requirement.
- BC24. Responding to feedback received from the GRM consultation, the XRB Board also made the following additional changes.
- (a) Combined some of the disclosures together for clarity (such as those relating to holding management accountable).
 - (b) Amended the required disclosures to clarify that an important focus is on the role of the governance body in developing and overseeing an entity's strategy, rather than disclosures on how issues are merely incorporated into governance processes.
 - (c) Amended the requirement from a disclosure regarding how management 'report to' the board (now governance body), to how management 'engage with' the governance body.

Strategy

Approach

- BC25. As an overarching approach, the XRB Board has sought to emphasise that the Strategy section is not about an entity having, or not having, a 'climate strategy'. Rather, it is about an entity disclosing to primary users how climate change is impacting and may further impact an entity's ability to deliver on its core strategy. It is also about what an entity is doing, given those impacts and potential impacts, to put itself in a better strategic position and build resilience (which is increasingly now expected to be communicated through a credible transition plan).
- BC26. The XRB Board has also engaged directly with sectors to encourage sector-level collaboration on scenario analysis, in parallel with the development of Aotearoa New Zealand Climate Standards. This engagement is intended to ensure entities get started on scenario analysis now in advance of the final standards being issued, putting entities in a position to ensure their scenario analysis disclosures are as consistent and comparable as possible, and to reduce costs and resourcing pressures. Many sectors are actively working to create scenarios at the sector level that entities can draw on to undertake their own scenario analysis. As part of this outreach the XRB Board emphasised the importance of taking an exploratory mindset to scenario analysis given the uncertainty posed by climate change. An entity can start qualitatively and build in quantification over time. The approach should not be purely about identifying climate-related risks and opportunities, but also about testing the resilience of the entity's business model and strategy. Starting out qualitatively and building quantification and sophistication over time on scenario analysis is consistent with the XRB Board's approach to draft NZ CS 1 more broadly, such as in relation to the disclosures on impacts and financial impacts.

International developments

- BC27. The changing international context has particularly affected the development of the Strategy section of NZ CS 1. Since the GRM consultation, many highly relevant developments have influenced the thinking of the XRB Board.
- (a) In October 2021, the TCFD released new guidance on Metrics, Targets and Transition Plans and updated its Implementation Guidance. Among other topics, this new guidance strengthened the rationale to include a 1.5 degrees Celsius temperature outcome for scenario analysis and provided significant additional guidance about the disclosure of financial impacts.
 - (b) A large number of new voluntary standards and guidance documents has emerged, particularly on transition plans such as from the Glasgow Financial Alliance for Net Zero and the UK Transition Plan Taskforce. These signalled increasing scrutiny of transition plans and their relative importance to primary users.
 - (c) The proposed disclosures released by the ISSB and national-level standard setters. For example, the ISSB and the US SEC both defined transition plans to include adaptation (differing from the TCFD definition). The ISSB also proposed allowing alternatives to scenario analysis within its draft standards.

SMT consultation

- BC28. The XRB Board received substantial positive feedback from the SMT consultation, as well as a range of suggested changes. Overall, there was a strong sense expressed that meeting the Strategy disclosure requirements would be challenging, which had been anticipated. In response, the XRB Board carefully considered the overall balance of what is practical for preparers at this time, balanced against the information demands of their primary users. To summarise, the feedback from respondents included:
- (a) a generally high degree of support for the proposals to add a standalone disclosure of an entity's business model and strategy, and to disclose the methodologies and assumptions associated with scenario analysis;

- (b) a generally high degree of support for scenario analysis proposals. Many respondents wanted to see more scenarios disclosed against, and suggested changes to ensure the higher physical risk scenario was sufficiently challenging given the current trajectory of global GHG emissions. Others preferred a more flexible approach. There was a strong desire for consistency and comparability to the greatest degree possible. Some encouraged the XRB Board to go further in relation to sector-level scenario analysis, such as creating a single set of mandated temperature scenarios;
- (c) support for transition and adaptation planning disclosures. Some wanted principles-based requirements, whereas others argued for more ambition and prescriptiveness with regard to transition plans that are aligned with 1.5 degrees Celsius global transition pathway and temperature goals, and national and sectoral emissions reduction pathways. Others wanted to see a disclosure requirement for an integrated plan covering both transition and adaptation, to give equal importance to both;
- (d) concerns that providing quantification of actual and potential financial impacts will be difficult. Respondents noted that some impacts may be highly challenging to be financially quantified in a meaningful way, due to, for example, the limitations of attribution science. Respondents also requested clarification on the XRB Board's expectations in relation to entities moving from qualitative disclosures of financial impacts to quantitative disclosures of financial impacts, where possible, over time; and
- (e) calls from some respondents for the XRB Board to align with various wording and use of terms from the ISSB's draft standards.

BC29. The XRB Board has considered this feedback and made several changes to draft NZ CS 1. At the same time, the XRB Board has continued to bear in mind its design principles and further international developments, including demands from primary users. Responding to the feedback received, the XRB Board amended the disclosure requirements as part of draft NZ CS 1, including moves to:

- (a) align the structure of the Strategy section more closely with the ISSB's draft climate standard, in a way that creates a clear logical flow, including adding new sub-headings;
- (b) remove reference to adaptation plans and their associated first-time adoption provisions, to ensure entities do not inadvertently see adaptation as less important. The concept of transition (specifically, the definition of transition risk) was defined more broadly to capture adaptation more explicitly, in line with global developments and to enable the disclosure of a more integrated transition plan;
- (c) address the feedback received on transition plan alignment with a 1.5 degrees Celsius scenario primarily in staff guidance. This is due to the fast-moving nature of transition plan expectations and the fact that disclosure on the alignment of targets is required in the Metrics and Targets section;
- (d) add a requirement to explore a third scenario to avoid two scenarios being seen as opposites or 'good and bad';
- (e) amend the 'greater than 2 degrees Celsius scenario' to a '3 degrees Celsius or greater scenario' to avoid entities not exploring challenging physical risk scenarios and improve scenario diversity;
- (f) align with the ISSB climate-related disclosures exposure draft on some specific use of wording, such as disclosing qualitative and quantitative information on financial impacts and the qualifier on climate-related risks and opportunities 'reasonably expected' by the entity;
- (g) Remove reference to business model and strategy in some places and some definitions to make the disclosures more principles based and to further ensure they are workable for financial institutions, particularly MIS managers;
- (h) add a disclosure for entities which are 'unable to' disclose quantitative information for financial impacts. This is in line with ISSB's proposals and helps to avoid attempted quantification of some impacts which are ultimately unsuited to being quantified and would be clearer to primary users presented in a qualitative manner; and

- (i) continue the work to encourage sector-level scenario analysis. Some of the suggestions made by respondents for further work in this area (for example, relating to climate data availability) are ultimately beyond the XRB Board's control, but the XRB Board will continue to closely monitor progress on scenario analysis and engage with central government regarding access to data.

Risk Management

Approach

- BC30. The Risk Management disclosures in draft NZ CS 1 are very closely aligned with the TCFD recommendations. The XRB Board notes that the proposed Risk Management requirements focus on disclosing the processes for identifying, assessing and managing climate-related risks and not climate-related opportunities. The XRB Board considers this is appropriate. However, the XRB Board believes the consideration of climate-related opportunities is equally important and recognises that risk management processes may facilitate the identification of climate-related opportunities.

GRM consultation

- BC31. The XRB Board proposed some additional specific disclosures additional to the TCFD recommendations in the GRM consultation. These were the tools and methods used, the time horizons considered, and the value chain stages covered. The XRB Board also specified that the risk management disclosures are to be made for both transition and physical risks.
- BC32. Some respondents to the GRM consultation expressed concerns with the disclosure of information about the value chain stages covered. The XRB Board believes that climate-related risks and opportunities relate to activities, interactions, and relationships and to the use of resources along an entity's value chain. When considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. In the XRB Board's view, disclosure of this information supports evaluations by primary users of an entity's overall risk profile and the quality and robustness of an entity's risk management activities. However, the XRB Board has reflected on feedback received that the disclosure as drafted may result in voluminous disclosures. To address this concern, the XRB Board have amended the disclosure to require disclosure as to whether any parts of the value chain are excluded.
- BC33. Also in response to feedback received on the GRM consultation, the XRB Board combined disclosure requirements relating to the processes for prioritising risks. The XRB Board agreed that the way the requirements were written required further clarity.
- BC34. The Risk Management disclosures in the GRM consultation included a requirement for an entity to disclose how it makes decisions to mitigate, transfer, accept, or control climate-related risks. Since the GRM consultation was issued, the XRB Board has developed the proposed Strategy disclosures. One of the proposed Strategy disclosures is a requirement for an entity to disclose transition aspects of its strategy. Considering this, the XRB Board has decided to remove the disclosure on how an entity makes decisions to mitigate, transfer, accept, or control climate-related risks from the Risk Management disclosures.

Metrics and Targets

Approach

- BC35. Primary users need to understand how an entity measures and manages its climate-related risks and opportunities. Disclosure of the metrics and targets used by an entity allows primary users to better assess an entity's potential risk-adjusted returns, ability to meet financial obligations, general exposure to climate-related risks and opportunities, and progress in managing or adapting to those climate-related risks and opportunities.

- BC36. Climate-related metrics can be generally categorised into two groups—those that apply to all entities (cross-industry) and those that are specific to an industry (industry-specific). The TCFD identified seven categories of cross-industry metrics. In selecting these cross-industry metric categories, the TCFD sought to emphasise categories that meet several criteria.
- (a) Indicative of many basic aspects and drivers of climate-related risks and opportunities.
 - (b) Useful for understanding how an organisation is managing climate-related risks and opportunities.
 - (c) Widely requested by climate reporting frameworks, lenders, investors, insurance underwriters, and regional and national disclosure requirements.
 - (d) Key inputs for estimating financial impacts of climate change on organisations.
- BC37. The XRB Board followed this approach in drafting NZ CS 1 and included the TCFD list of seven cross-industry metric categories in the SMT consultation. The draft ISSB climate standard also includes this list of cross-industry metric categories.
- BC38. In terms of industry-specific metrics, the XRB Board considers that entities should report those metrics which are actually used to manage climate-related risks and opportunities. These may be industry-specific or entity-specific metrics. The decision not to specify industry-specific metrics aligns with the XRB Board's design principles.
- BC39. The XRB Board, however, acknowledges that the TCFD provides guidance on industry-specific metrics which are likely to be useful for management purposes and that the ISSB's draft climate standard has proposed an extensive list of industry-specific metrics drawn from SASB Standards. The XRB Board intends to watch domestic and global developments in this space and will consider whether a list of industry-specific metrics should be included in future updates to NZ CS 1, if required for disclosure comparability.
- BC40. The XRB Board's proposed disclosure requirements for targets were drawn from the TCFD recommendations and guidance. These are largely mirrored in the ISSB's draft climate standard. However, the XRB Board notes that the ISSB's draft climate standard contains some additional disclosure requirements including, how an entity's targets compare with those created in the latest international agreement on climate change and whether the target was derived using a sectoral decarbonisation approach. The XRB Board decided not to include these additional disclosure requirements in draft NZ CS 1, instead they will be included in the draft staff guidance document as additional items of information that an entity may wish to disclose.
- BC41. The XRB Board recognises that there are existing globally accepted and commonly used GHG emissions measurement and reporting standards, including the GHG Protocol Corporate Accounting and Reporting Standard (GHG Protocol) and ISO 14064-1 – Greenhouse gases. Therefore, the XRB Board did not mandate a single approach, but instead the XRB Board proposes that an entity disclose the standards it used to measure its GHG emissions. In the XRB Board's view the outcome of measurement will be close to the same regardless of the standard used.
- BC42. The XRB Board decided not to require a particular consolidation approach (for example, equity share, operational control or financial control). While the choice of consolidation approach can move emissions between scopes, the XRB Board believes that with the inclusion of scope 3 value chain emissions the total emissions disclosed will be similar irrespective of the consolidation approach applied. Instead, the XRB Board is proposing that the consolidation approach used is disclosed.
- BC43. The XRB Board decided to use the term 'gross' GHG emissions rather than 'absolute' as used by the TCFD.⁷ The ISSB's draft climate standard uses 'gross absolute'. The XRB Board's intention is that an entity should report its emissions excluding any purchase, sale or transfer of GHG emission offsets or allowances. This includes accounting for scope 2 emissions using the location-based methodology and reporting any removals separately. This shows the total GHG emissions attributable to an entity. The XRB Board believes that this is a transparent approach which will focus attention on emissions reductions rather than offsetting and can help to avoid allegations of greenwashing. This approach is consistent with the GRI Standard 305

⁷ Gross is a defined term in draft NZ CS 1.

disclosures. The XRB Board notes that an entity can provide additional disclosures such as market-based emissions if this is how an entity measures and manages its climate-related risks and opportunities.

- BC44. Draft NZ CS 1 requires disclosure of scope 3 GHG emissions for all entities. The scope 3 categories from the GHG Protocol have been included in the definition of scope 3. For most entities scope 3 is where the most significant emissions risks and opportunities lie, and it is important for entities and primary users to understand these risks and opportunities.⁸ The XRB Board also believes it is important for an entity to understand all of its scope 3 emissions in order to develop a credible transition plan. This stance is supported by the XRB's EAP.

SMT consultation

- BC45. The XRB Board received largely supportive feedback from the SMT consultation relating to the cross-industry metric categories, and a large number of comments on the industry-specific metrics. The majority (80%) supported the decision not to specify industry-specific metrics in draft NZ CS 1. Respondents also considered that it would be useful for the XRB's accompanying staff guidance to recommend where entities could look to identify metrics which might be suitable for their entity.
- BC46. The SMT consultation included a proposed requirement to disclose whether an entity's target was science based. Eleven submissions were received on the use of the term 'science based', including requests for a definition. There was some concern that only validated Science Based Targets Initiative targets would be acceptable. In response to this feedback, the XRB Board decided to reword the proposed disclosure requirement to 'whether the target is aligned with science'. The XRB Board decided not to make 'aligned with science' a defined term, as it is a particularly fast-moving area and what is considered to align with science may change rapidly. The XRB Board decided that the draft staff guidance document will contain additional information for entities on alignment with science.
- BC47. Feedback was also received from the SMT consultation about an entity's use of offsets in achieving its targets. In response to this feedback an additional disclosure was proposed on the use of offsets for those entities which choose to use them. The XRB Board also notes that the ISSB's draft climate standard includes disclosure on offsets in the section on transition plans. It is the XRB Board's view that transition plans should be focused on gross emissions reductions, rather than offsets.
- BC48. The SMT consultation proposed disclosure of the source of GHG emissions factors, the global warming potential rates used and a summary of exclusions. These disclosures were proposed to enable primary users to understand how GHG emissions have been calculated. However, following consultation feedback, the disclosure for the source of GHG emissions factors and global warming potential rates was removed as there was no specific support for this disclosure.
- BC49. The XRB Board proposed in the SMT consultation that an entity was required to prepare a GHG emissions report, and disclose the standards, protocols and methodologies that the GHG emissions report had been prepared in accordance with. The XRB Board proposed that the GHG emissions report would be an integral part of the disclosures, be required to be publicly available, and be subject to assurance. Feedback received from the SMT consultation questioned the requirement for an entity to prepare and publicly disclose a separate GHG emissions report. Some respondents argued that the requirement to prepare a GHG emissions report was unnecessarily onerous, and not required in order to provide scope 1, 2 and 3 emissions disclosures. Based on this feedback, the XRB Board decided to remove the proposed requirement to prepare a GHG emissions report. The revised proposals require an entity to disclose the recognised standard or standards that its GHG emissions have been measured in accordance with. In addition, proposed disclosure requirements were strengthened in draft NZ CS 3, in particular the addition of requirements on GHG methodologies, assumptions and estimation uncertainty (see paragraphs 51-53 of draft

⁸ Analysis performed using data from CDP's supply chain programme indicates that a given company's scope 3 emissions average some 11.5 times higher than its direct accountable emissions (CDP, 2021, [Supply Chain Report 2020](#)). Among financial institutions, scope 3 emissions account for an even higher share of overall emissions, with portfolio emissions on average over 700 times higher than direct emissions (CDP, 2021, [The Time to Green Finance](#)). For financial institutions this will mean measuring the financed emissions of a portfolio. This enables financial institutions to set targets, inform actions, and disclose progress. Understanding these emissions is crucial for portfolio alignment and decarbonisation.

NZ CS 3). The XRB Board's intent with the revised proposals is to allow flexibility for entities and reduce compliance costs for those entities that do not wish to prepare a more detailed standalone report.

- BC50. The proposed requirement for an entity to disclose its scope 3 emissions was supported by most of the feedback received from the SMT consultation.

Assurance

- BC51. Section 461ZH of the Act requires an entity to ensure that aspects of its climate statements that disclose GHG emissions are the subject of an assurance engagement. These assurance requirements apply to an accounting period that commences before but ends after the third anniversary of Royal Assent of the Act.
- BC52. The Act received Royal Assent on 27 October 2021. This means that entities will be required to get GHG emissions disclosures assured for any accounting period (including any open accounting period) that ends on or after 27 October 2024. Assuming that the XRB issues NZ CS 1 in December 2022 as intended, all entities will publish at least one climate statement before assurance is required over GHG emissions disclosures.

Level of assurance

- BC53. Typically, the level of assurance is determined in legislation. However, in this instance, the XRB Board will specify the minimum required level of assurance as part of the climate-related disclosure framework.
- BC54. The XRB Board has considered this topic in two main ways. First, existing practice was surveyed.⁹ This survey focused on levels of assurance for early adopters in New Zealand. For those entities that are currently reporting emissions (74), 51% do not appear to obtain assurance. Of those that do obtain assurance (36), the majority (75%) get assurance to a reasonable standard over their scope 1 and 2 GHG emissions, and, to a lesser extent, over some scope 3 GHG emissions where they are easy to measure, i.e., travel and waste.
- BC55. However, the proposed disclosures in draft NZ CS 1 include all scope 1, 2 and 3 GHG emissions. Given that certain types of emission estimates are subject to high estimation uncertainty, it may be disproportionately difficult for the assurance practitioner to obtain additional evidence to reduce the engagement risk to provide a reasonable level of assurance. In addition, the information systems and controls that underpin the GHG emissions information are often developed over time, limiting the assurance practitioner's ability to rely on the entity's controls to reduce the engagement risk. The XRB Board believes that, at this time, the cost is likely to outweigh the benefit of increasing the minimum level of assurance from limited to reasonable. It should also be noted that entities that are voluntarily obtaining assurance are early adopters and so are likely to be further advanced than most other entities in this regime.
- BC56. Second, the XRB conducted a series of expert sessions on the assurance of GHG emissions. At these sessions, concerns were raised about the financial burden of requiring reasonable assurance over certain categories of scope 3 emissions. Feedback from the SMT consultation overwhelmingly supported the level of assurance being set at limited.
- BC57. The XRB Board concluded that the minimum level of assurance for GHG emissions should be set at limited assurance. The XRB Board noted that an entity may obtain reasonable assurance over some or all of its GHG emissions disclosures if it wishes.

Scope of assurance engagement

- BC58. For clarity for both an entity and the assurance practitioner, the XRB Board has identified the scope of the assurance engagement in NZ CS 1 (paragraphs 24 and 25). Emissions intensity disclosures are considered to be outside the scope of assurance as are any industry-specific metrics which include GHG emissions.

⁹ Tiller, D. and Ryan, J. (2021). A recent survey of GHG emissions reporting and assurance, The Australian Accounting Review, <https://doi.org/10.1111/auar.12364>.

- BC59. The SMT consultation included the assurance of a separate GHG emissions report as part of the assurance engagement. With the removal of the requirement to prepare a GHG emissions report this was also removed from the proposed assurance requirements. No feedback was received on the proposed scope of the assurance engagement from the SMT consultation.

Exposure Draft

Aotearoa New Zealand Climate Standard 2

First-time Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2)

Exposure Draft

Submissions close 26 September 2022

July 2022



EXPOSURE DRAFT

Aotearoa New Zealand Climate Standard 2

First-time Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2)

Issued [date]

This [draft] Standard was issued on [date] by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

This [draft] Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date in paragraph B1 of Appendix B.

In finalising this [draft] Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard has been issued as a result of the New Zealand Government enacting legislation to require certain entities to prepare climate-related disclosures.

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ISBN

Exposure Draft

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[Draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards* is set out in paragraphs 1 to 25 and Appendices A and B. All the paragraphs, including Appendices A and B, have equal authority. Terms defined in Appendix A are in *italics* the first time that they appear in the [draft] Standard. This [draft] Standard should be read in the context of its objective and the Basis for Conclusions.

Exposure Draft

Objective

1. In recognition that it may take time to develop the capability to produce high-quality climate-related disclosures, this [draft] Standard provides a limited number of first-time adoption provisions (adoption provisions) from the disclosure requirements in Aotearoa New Zealand Climate Standards.

Scope

2. This [draft] Standard applies to entities which are required by the Financial Markets Conduct Act 2013 to prepare climate statements or group climate statements that comply with the climate-related disclosure framework.
3. Any entity that elects to or is otherwise directed to prepare climate statements or group climate statements is encouraged to apply all the requirements of Aotearoa New Zealand Climate Standards.¹
4. An entity may apply this [draft] Standard when it prepares and presents its climate statements or group climate statements on the first-time adoption of Aotearoa New Zealand Climate Standards. This means that:
 - (a) the first time that an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards, it may apply the *first reporting period* adoption provisions.
 - (b) The second time that an entity makes an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards, it may apply the *second reporting period* adoption provisions.
5. This [draft] Standard does not apply to an interim period.

First-time adoption provisions

6. An entity may elect to use one or more of the adoption provisions contained in this [draft] Standard. Some of the adoption provisions exempt certain disclosures whereas other adoption provisions require alternative information to be disclosed.

Strategy

First-time adoption provision 1: Current financial impacts

7. Paragraph 11(b) of [draft] NZ CS 1 *Climate-related Disclosures* requires the following disclosure:

the current financial impacts of its physical and transition impacts identified in paragraph 11(a).
8. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
9. If an entity elects to make use of the adoption provision in paragraph 8, this [draft] Standard also provides an exemption from paragraph 11(c) of [draft] NZ CS 1:

if the entity is unable to disclose quantitative information for paragraph 11(b), an explanation of why that is the case.

¹ For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

First-time adoption provision 2: Time horizons associated with financial impacts

10. Paragraph 13(b) of [draft] NZ CS 1 requires the following disclosure:
 - a description of the time horizon over which each climate-related risk or opportunity could reasonably be expected to have a financial impact.
11. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.

First-time adoption provision 3: Anticipated financial impacts

12. Paragraph 14(b) of [draft] NZ CS 1 requires the following disclosure:
 - the anticipated financial impacts of climate-related risks and opportunities reasonably expected by the entity.
13. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
14. If an entity elects to make use of the adoption provision in paragraph 13, this [draft] Standard also provides an exemption from paragraph 14(c) of [draft] NZ CS 1:
 - if the entity is unable to disclose quantitative information for paragraph 14(b), an explanation of why that is the case.

First-time adoption provision 4: Transition plan aspects of an entity's strategy

15. Paragraphs 15(b) and 15(c) of [draft] NZ CS 1 require the following disclosure:
 - the transition plan aspects of its strategy, including how its business model and strategy might change to address its climate-related risks and opportunities; and
 - the extent to which transition plan aspects of its strategy are aligned with its financial planning processes, including for capital deployment and funding.
16. This [draft] Standard provides an exemption from these disclosure requirements in an entity's first reporting period.
17. If an entity elects to make use of the adoption provision in paragraph 16, it must provide a description of its progress towards developing the transition plan aspects of its strategy, in its first reporting period.

Metrics and Targets**First-time adoption provision 5: Scope 3 GHG emissions**

18. Paragraph 21(a)(iii) of [draft] NZ CS 1 *Climate-related Disclosures* requires the following disclosure:
 - greenhouse gas (GHG) emissions: gross emissions in metric tonnes of carbon dioxide equivalent (CO₂e) classified as scope 3.
19. Although disclosure of scope 3 GHG emissions is encouraged for all entities on adoption of Aotearoa New Zealand Climate Standards, this [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.

Comparatives for metrics**First-time adoption provision 6: Comparatives for metrics**

20. Paragraph 39 of [draft] NZ CS 3 *General Requirements for Climate-related Disclosures* requires the following disclosure:
 - For each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information.

21. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first reporting period.
22. In an entity's second reporting period, this [draft] Standard permits an entity to provide one year of comparative information for each metric.

First-time adoption provision 7: Analysis of trends

23. Paragraph 40 of [draft] NZ CS 3 requires the following disclosure:

An entity must disclose an analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period.
24. This [draft] Standard provides an exemption from this disclosure requirement in an entity's first and second reporting period.

Use of first-time adoption provisions

25. If an entity elects to use any of the adoption provisions in this [draft] Standard, it must include a description of the adoption provisions used in conjunction with its statement of compliance with Aotearoa New Zealand Climate Standards (see NZ CS 3 paragraph 54).

Appendix A

Defined terms

This appendix is an integral part of [draft] NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards* and has the same authority as the other parts of this [draft] Standard.

| | |
|--------------------------------|---|
| first reporting period | The first climate-related disclosures in which an entity adopts Aotearoa New Zealand Climate Standards, by an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards. |
| second reporting period | The second climate-related disclosures in which an entity adopts Aotearoa New Zealand Climate Standards, by an explicit and unreserved statement of compliance with Aotearoa New Zealand Climate Standards. |

Terms defined in Aotearoa New Zealand Climate Standards and used in this [draft] Standard with the same meaning

| | |
|---|---|
| Aotearoa New Zealand Climate Standards | Standards issued by the External Reporting Board which comprise the climate-related disclosure framework. |
| climate statements | For the purposes of this [draft] Standard has the same meaning as 'climate statements' as defined in the Financial Reporting Act 2013. |
| climate-related disclosures | Disclosures about climate-related risks and opportunities that are useful to primary users when they assess, and make decisions about, an entity's enterprise value, including information about its governance, strategy and risk management, and related metrics and targets. |
| climate-related disclosure framework | For the purposes of this [draft] Standard, climate-related disclosure framework has the same meaning as 'climate-related disclosure framework' as defined in the Financial Reporting Act 2013. |
| greenhouse gas (GHG) | The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO ₂); methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF ₃), perfluorocarbons (PFCs), and sulphur hexafluoride (SF ₆). |
| group climate statements | For the purposes of this [draft] Standard has the same meaning as 'group climate statements' as defined in the Financial Reporting Act 2013. |
| interim period | A reporting period shorter than a full year. |
| scope 3 | Other indirect GHG emissions not covered in scope 2 that occur in the value chain of the reporting entity, including upstream and downstream GHG emissions. Scope 3 categories are purchased goods and services, capital goods, fuel-related and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold products, downstream leased assets, franchises, and investments. |

Appendix B

Effective date

This appendix is an integral part of [draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards* and has the same authority as the other parts of this [draft] Standard.

Effective date

- B1. An entity must apply this [draft] Standard for annual reporting periods beginning on or after [1 January 2023].

Exposure Draft

Contents: Basis for Conclusions on [draft] NZ CS 2 First-time Adoption Provisions of Aotearoa New Zealand Climate Standards

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Basis for Conclusions on [draft] NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards*

This Basis for Conclusions accompanies, but is not part of, [draft] NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards*.

Introduction

- BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing draft NZ CS 2 *First-time Adoption Provisions of Aotearoa New Zealand Climate Standards* as part of the climate-related disclosure framework for Aotearoa New Zealand.
- BC2. The XRB Board is aware that the depth of understanding of climate-related risks and opportunities varies substantially across entities, and that capability to enable high-quality climate-related disclosures takes time to develop. Rather than delay the application of Aotearoa New Zealand Climate Standards the XRB Board has issued this [draft] Standard to provide first-time adoption provisions (adoption provisions) to assist entities while developing that capability.
- BC3. Adoption standards offer various provisions to entities when a new standard or new requirements are to be applied for the first time, and can include practical expedients, phased adoption, or relief from providing comparative information. Those entities that are more advanced in their climate reporting journey may choose not to apply any of the adoption provisions in this [draft] Standard.

Scope

- BC4. The XRB Board has included paragraph 4 in the scope section of draft NZ CS 2 to make it clear that the adoption provisions are available to entities the first time an entity adopts Aotearoa New Zealand Climate Standards. For example, a climate reporting entity could drop out of the reporting regime because it is no longer large, but subsequently becomes large in a future reporting period. The XRB Board's view is that the entity should not be able to take advantage of any adoption provisions in the future reporting period(s).

Governance and Risk Management

- BC5. In October 2021, the XRB Board published the Governance and Risk Management Consultation Document (GRM consultation). In the GRM consultation, the XRB Board requested feedback on its preliminary view that adoption provisions were not required for the Governance and Risk Management sections of draft NZ CS 1 *Climate-related Disclosures*. The XRB Board considered that providing information to meet the proposed requirements was not onerous, as an entity was required to disclose its current activities.
- BC6. Most respondents agreed with the XRB's preliminary view that adoption provisions were unnecessary for the Governance and Risk Management disclosures. Of those respondents who advocated for adoption provisions, the primary arguments related to recognising that many entities are in the early stages of developing their capability in relation to climate-related reporting, and that it can be a large task for entities to implement climate risk frameworks.
- BC7. The XRB Board acknowledges the feedback received but notes that the intent of both the Governance and Risk Management sections of draft NZ CS 1 is for an entity to disclose the extent of its activities, not to require a certain level of performance. An entity will be able to meet the Governance and Risk Management disclosures by describing its current processes and activities. The XRB Board has therefore not proposed any adoption provisions for the Governance and Risk Management disclosures in draft NZ CS 2.

Strategy

- BC8. In March 2022, the XRB Board published the Strategy, and Metrics and Targets Consultation Document (SMT consultation). In the SMT consultation, the XRB Board requested feedback on its preliminary views on adoption provisions for the proposed Strategy disclosures. The XRB Board proposed the following adoption provisions:
- (a) an exemption from disclosing time horizons for financial impacts in an entity's first reporting period;
 - (b) an exemption from quantifying actual and potential financial impacts in an entity's first reporting period (an entity would be required to disclose qualitative information in its first reporting period);
 - (c) an exemption from disclosure of transition plan aspects of an entity's strategy in its first reporting period (an entity would be required to disclose progress towards developing a transition plan in its first reporting period); and
 - (d) an exemption from disclosure of adaptation plan aspects of an entity's strategy in its first and second reporting period (an entity would be required to disclose progress towards developing an adaptation plan in its first and second reporting period).
- BC9. Most respondents agreed with the proposed adoption provisions in the SMT consultation. However, concerns were raised in the Strategy feedback that quantifying actual and potential financial impacts will be difficult (see paragraph BC 28(d) in draft NZ CS 1). Responding to this feedback, the XRB Board is proposing amendments to the requirements in draft NZ CS 1 (see paragraphs 11 and 14 of draft NZ CS 1). The XRB Board has also decided to include a proposed exemption from providing current financial impacts and anticipated financial impacts in an entity's first reporting period (see paragraphs 8 and 13).
- BC10. A few respondents requested that the XRB Board align the adoption provisions for transition and adaptation planning rather than allowing an extra year for the disclosure of adaptation planning. The XRB Board is proposing amendments to the Strategy disclosures in draft NZ CS 1 for transition and adaptation planning. (See paragraph 15 in draft NZ CS 1, and paragraph BC 29(b) in draft NZ CS 1 for an explanation of these amendments.)
- BC11. The XRB Board carefully considered but ultimately decided against providing adoption provisions for Strategy disclosures relating to scenario analysis in the SMT consultation. Scenario analysis plays a core role in the broader context of draft NZ CS 1. Scenario analysis should precede the calculation of anticipated financial impacts, as well as transition planning aspects of an entity's strategy. This is because scenario analysis provides entities with systemic insights into how future climate-related risks and opportunities might affect their business models and strategies. Further, if adoption provisions for scenario analysis were included, the XRB Board consider that adoption provisions for current and anticipated financial impacts, and transition planning would subsequently need to be further delayed. Such delays would create broader risks for the financial system if this information was not disclosed until 2025–2030, in the context of New Zealand's 2030 emissions reduction target.
- BC12. Although some respondents to the SMT consultation requested relief from scenario analysis, they were fewer than anticipated. Many respondents also mentioned (including during informal consultation), that it is important that entities start now on this work. The XRB Board is therefore keeping to its original proposals of not providing adoption provisions for scenario development. The XRB Board also considers that its encouragement of sectors to come together to produce sector-level scenarios may reduce the burden for a significant number of entities.

Metrics and Targets

- BC13. Apart from the adoption provision exempting the disclosure of comparative information for metrics, the XRB Board did not propose any adoption provisions for Metrics and Targets in the SMT consultation.

- BC14. While respondents agreed with the requirement to disclose scope 3 greenhouse gas (GHG) emissions, many respondents highlighted challenges with measuring these emissions. Particular areas of concern were financed and underwritten emissions, including concerns raised about the lack of methodology for insurance underwriters. Respondents requested that the XRB Board consider providing some adoption relief from the disclosure of scope 3 GHG emissions.
- BC15. The XRB Board considered options for providing relief from the disclosure of scope 3 GHG emissions, including whether to provide an exemption from disclosing certain scope 3 categories in the first year of reporting, for example, category 15 financed emissions. The XRB Board decided, on balance, to provide an exemption from disclosing all scope 3 GHG emissions in an entity's first reporting period (see paragraph 19).
- BC16. Although the XRB Board has provided an exemption from disclosure for the first year of reporting, it strongly encourages entities to start measuring their scope 3 GHG emissions now. Starting to measure now will put entities in good stead for disclosure of these emissions as part of their second year of reporting. Importantly also, for most entities, scope 3 emissions are where their most significant emissions risks and opportunities lie. Obtaining a clear picture of the scale and scope of these emissions sources will greatly assist entities to understand their climate-related risks and opportunities and assist with transition planning.
- BC17. Furthermore, the XRB Board notes that the GHG Protocol Corporate Accounting and Reporting Standard, the Corporate Value Chain (Scope 3) Accounting and Reporting Standard and ISO 14064-1:2018 – Greenhouse gases, allow entities to exclude emission sources, facilities and/or operations under certain limited circumstances. Any specific exclusions of sources must be disclosed with a justification for their exclusion. The XRB Board believes the justification of exclusions is an important disclosure and has included it in draft NZ CS 1 (see paragraph 23(c) in draft NZ CS 1).
- BC18. Some respondents requested first-time adoption provisions in relation to Metrics and Targets generally. They cited concerns that the Task Force on Climate-related Financial Disclosures (TCFD) cross-industry metrics were relatively new, and that there was a lack of data and time was needed for entities to put in place systems to measure and track these metrics and related targets. The XRB Board acknowledges the concerns raised; however, the XRB Board believes that entities should be able to provide the metrics identified in the disclosure requirements, albeit with a higher level of uncertainty or estimation. The XRB Board notes the importance of transparency on how entities have calculated metrics and targets and the levels of uncertainty or estimation. The XRB Board has included disclosure requirements in draft NZ CS 3 on significant assumptions and level of uncertainty to ensure primary users are provided with sufficient information to make their decisions.

Comparative Information

- BC19. The XRB Board notes that because Aotearoa New Zealand Climate Standards are based on TCFD recommendations, those entities which have been voluntarily applying the TCFD recommendations may be able to apply a retrospective approach and provide comparative metrics in the first reporting period. However, the XRB Board acknowledges that not all entities will be able to use a retrospective approach. So, the XRB Board decided to include adoption provisions for comparative information. This means that entities will not have to provide comparatives for metrics in the first year of reporting and only one year of comparatives for the second year of reporting (see paragraphs 21 and 22).

Analysis of Trends

- BC20. Because the XRB Board decided to include an adoption provision for comparative information, entities are also given an exemption from having to disclose an analysis of main trends in the first two reporting periods (see paragraph 24).

Aotearoa New Zealand Climate Standard 3

General Requirements for Climate-related Disclosures (NZ CS 3)

Exposure Draft

Submissions close 26 September 2022

July 2022





EXPOSURE DRAFT

Aotearoa New Zealand Climate Standard 3 General Requirements for Climate-related Disclosures (NZ CS 3)

Issued [date]

This [draft] Standard was issued on [date] by the External Reporting Board pursuant to section 12(aa) of the Financial Reporting Act 2013.

This [draft] Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date in Paragraph B1 of Appendix B.

In finalising this [draft] Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This [draft] Standard has been issued as a result of the New Zealand Government enacting legislation to require certain entities to prepare climate-related disclosures.

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ISBN

Exposure Draft

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[Draft] NZ CS 3 *General Requirements for Climate-related Disclosures* is set out in paragraphs 1-55 and Appendices A and B. All the paragraphs, including Appendices A and B, have equal authority. Terms defined in Appendix A are in *italics* the first time that they appear in the [draft] Standard. This [draft] Standard should be read in the context of its objective, the Basis for Conclusions, and [draft] NZ CS 2 *First-time Adoption of Aotearoa New Zealand Climate Standards*.

Exposure Draft

Objective

1. The objective of this [draft] Standard is to establish principles and general requirements to enable the provision of high-quality *climate-related disclosures*.

Scope

2. This [draft] Standard applies to entities which are required by the Financial Markets Conduct Act 2013 to prepare *climate statements* or *group climate statements* that comply with the *climate-related disclosure framework*.
3. Any entity that elects to or is otherwise directed to prepare climate statements or group climate statements is encouraged to apply all the requirements of *Aotearoa New Zealand Climate Standards*.¹
4. This [draft] Standard does not apply to an *interim period*.

Fair presentation

5. An entity must fairly present its climate-related disclosures. Fair presentation requires an entity to disclose information in accordance with the principles in this [draft] Standard and the disclosure objectives and requirements in *Aotearoa New Zealand Climate Standards*.
6. Applying *Aotearoa New Zealand Climate Standards* is presumed to result in climate-related disclosures that achieve a fair presentation. When compliance with the specific requirements in *Aotearoa New Zealand Climate Standards* is insufficient to show a fair presentation, additional disclosures must be provided.
7. *Aotearoa New Zealand Climate Standards* contain disclosure objectives to assist entities in determining whether to disclose additional information. However, when disclosing additional information, an entity must ensure that relevant information is not obscured by the inclusion of immaterial detail.
8. When applying *Aotearoa New Zealand Climate Standards*, an entity, after it has considered all relevant facts and circumstances, must decide how to aggregate or disaggregate the information in its climate-related disclosures. For example, information about climate-related risks and opportunities might need to be disaggregated, such as by geographical location, business unit or type of asset. An entity shall not reduce the understandability of its climate-related disclosures by obscuring material information with immaterial information or by aggregating material items that are dissimilar.

Principles

9. To achieve fair presentation, an entity must apply the principles provided in Table 1 and Table 2 when preparing and presenting climate-related disclosures.
10. An entity may encounter tension in the application of the principles. For example, an entity may update a metric to meet the comparability principle, which could then result in a conflict with the principle of consistency. Tension can also arise within a single principle. For example, disclosures must be verifiable, but assumptions made about future-oriented disclosures often require significant judgement that is difficult to verify. This means that, in practice, all the principles or qualitative characteristics may not be fully achieved and a balance or trade-off between certain of them may be necessary. An entity must consider the needs of its primary users and the objectives of climate-related disclosures when making judgements about trade-offs between the principles.

¹ For example, Crown Financial Institutions as directed by a letter of expectation from the Minister of Finance.

Table 1: Principles — Information

11. This table describes the principles (also known as qualitative characteristics) that makes information in climate-related disclosures useful to primary users.

| Principle | Explanation in the context of climate-related disclosures |
|--|--|
| Relevance Information is relevant where it is capable of making a difference in the decisions made by primary users. | Climate-related disclosures are more relevant if the information is specific to an entity. For example, where the disclosures convey anticipated impacts of climate-related risks and opportunities that are specific to an entity's markets, business model, corporate or investment strategy, financial statements, and future cash flows. |
| Balance Information is balanced if is portrayed in a manner that is free from bias or is not manipulated to make it more likely that primary users will receive that information favourably or unfavourably. | Climate-related disclosures are balanced when they do not overemphasise positive news or impacts, in a manner that could be interpreted as 'greenwashing'. Balanced narrative explanations require that climate-related risks as well as climate-related opportunities are portrayed in a manner that is free from bias. |
| Accuracy Information is accurate if it is free from material error or misstatement. | Climate-related disclosures are based on estimates and judgements of the current position as well as future expectations and uncertain pathways. Accurate information implies the entity has implemented adequate processes and internal controls to ensure information is free from material error or misstatement. However, in this context accuracy does not mean certainty of outcome. Estimates should be presented with a clear emphasis on their possible limitations and related uncertainty. |
| Verifiability Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. | Climate-related disclosures should be defined, collected, recorded, and analysed in such a way that the information reported is verifiable. In the context of future-oriented information, verifiability means that the assumptions used can be traced back to their sources. Future-oriented disclosures will inherently involve the entity's judgement (which should be adequately explained). To the extent possible, climate-related disclosures should be based on objective data and use best-in-class measurement methodologies, which may include common industry practice as it evolves. |
| Comparability Information is comparable if it enables primary users to identify and understand similarities in, and differences among, items. | Unlike the other principles, comparability does not relate to a single item. A comparison requires at least two items. Information is more useful to primary users if it can be compared with: <ul style="list-style-type: none"> (a) information provided by the entity in previous reporting periods; and/or (b) information provided by other entities, in particular those with similar activities or operating within the same industry. Climate-related disclosures are more comparable when they provide points of reference. For example, targets, a baseline, or an industry benchmark. |

| Principle | Explanation in the context of climate-related disclosures |
|---|--|
| Consistency Information is consistent if the same approach or method is used from reporting period to reporting period. | Consistent climate-related disclosures over time allows for inter-period comparisons and enables primary users to understand the development and/or evolution of how an entity is considering climate-related risks and opportunities. |
| Timeliness Information is timely when it is available in time to be capable of influencing primary users' decisions. | Where possible, climate-related disclosures should be available at the same time as an entity's financial reporting. This enables primary users to make more rounded assessments. |

Table 2: Principles — Presentation

12. This table describes the principles (also known as qualitative characteristics) that makes the presentation of climate-related disclosures useful.

| Principle | Explanation in the context of climate-related disclosures |
|--|---|
| Understandability Presenting information in a clear and concise manner. | <p>Climate-related disclosures should be written with the objective of communicating information to primary users. The disclosures should be sufficiently granular to balance the information needs of sophisticated users, but also provide less-detailed information for those who are less sophisticated.</p> <p>The clearest form of disclosure depends on the nature of the information and might sometimes include tables, graphs, or diagrams. For climate-related disclosures to be concise they should avoid generic (or boilerplate) information and unnecessary duplication.</p> <p>Climate-related disclosures should include straightforward explanations of issues. Terms used in the disclosures should be explained or defined for a proper understanding by primary users.</p> |
| Completeness Presenting all information that is necessary for an understanding of the matter that it purports to represent and does not leave out details that could cause information to be false or misleading to primary users. | <p>Climate-related disclosures should be sufficiently comprehensive to allow primary users to assess future expectations and performance, and also evaluate actual performance relative to previously disclosed expectations.</p> <p>To avoid obscuring relevant information, disclosures should be eliminated if they are immaterial or redundant. However, where a particular risk or issue might be expected by primary users, but it is not considered material by the entity, it may, to achieve the principle of completeness, consider including a statement that the risk or issue is not considered to be significant. This will show the risk or issue has not been overlooked.</p> |
| Consistency Presenting disclosures using consistent formats, language, and metrics from reporting period to reporting period. | <p>Disclosures that are consistent over time will enhance communication with primary users. To allow for inter-period comparisons, climate-related disclosures should be presented using formats, narratives, and metrics that are consistent from reporting period to reporting period.</p> <p>It is recognised that, due to the developing nature of climate-related disclosures, there will be changes in metrics, narratives and formats. In these circumstances, any such changes should be explained.</p> |

| Principle | Explanation in the context of climate-related disclosures |
|---|---|
| Coherence Presenting disclosures in a way that explains the context and relationships with other disclosures of the entity. | <p>Coherence means presenting climate-related disclosures in a way that makes clear the linkages and connections between an entity's climate-related risks and opportunities and its governance, strategy, risk management and metrics and targets.</p> <p>Coherence will be more important if climate-related disclosures are presented in different locations within a document or are distributed across other disclosures of the entity.</p> <p>Coherence also requires an entity to present information in a way that allows primary users to relate information about its climate-related risks and opportunities to the entity's financial statements.</p> |

Location of disclosures

13. An entity may provide its climate-related disclosures in a standalone document or within another document (for example, its annual report or a sustainability or integrated report).
14. Where the climate-related disclosures are provided within another document, an entity must include a table within that other document, clearly identifying the location of the disclosures required by Aotearoa New Zealand Climate Standards.

Cross referencing

15. Disclosures required by Aotearoa New Zealand Climate Standards may be incorporated within an entity's climate-related disclosures by cross reference. This may include cross reference to another document or to an entity's website.
16. Disclosures included by cross referencing should comply with the principle of fair presentation in this [draft] Standard. In particular, disclosures included by cross reference should not make an entity's climate-related disclosures less understandable, complete or coherent.
17. If an entity applies cross referencing:
 - (a) the disclosures must be made freely available to primary users at the same time as the main climate-related disclosures;
 - (b) the disclosures must remain unchanged and available over time at the cross-referenced location;
 - (c) the entity must identify the location of that information and explain how to access it; and
 - (d) the entity must ensure cross referencing is direct and precise as to the specific location of that information.
18. If information is included by cross reference, that information becomes part of the climate-related disclosures. This means that the information included by cross reference needs to comply with the requirements of Aotearoa New Zealand Climate Standards. It also means that the governance body that authorises the climate-related disclosures takes the same responsibility for the information included by cross reference as they do for the information included directly.

Climate statements relating to registered schemes

19. A manager of a registered scheme may be required by legislation to complete climate statements in relation to each separate fund of the scheme. To avoid unnecessary duplication this [draft] Standard allows for common information to be presented at a scheme level. For example, if the disclosures on Governance and Risk Management contain common information for each fund within a scheme, these may be presented at a scheme level.

Reporting entity

20. Except as otherwise required by legislation, an entity must prepare its climate-related disclosures for the same *reporting entity* as its financial statements.
21. If the reporting entity is a group comprising a parent and its subsidiaries, then climate-related disclosures are reported in respect of that group. However, a subsidiary may separately be a reporting entity and be required by legislation to prepare its own climate-related disclosures.

Value chain

22. Climate-related risks and opportunities relate to activities, interactions, and relationships and to the use of resources along an entity's value chain. When considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. Investments that an entity has in other entities, for example, associates and joint ventures, are also considered to be part of an entity's value chain.

Reporting currency

23. When currency is used as the unit of measure in an entity's climate-related disclosures, an entity must use the presentation currency of its financial statements.

Reporting period

24. An entity must prepare its climate-related disclosures for the same *reporting period* as its annual financial statements.
25. When an entity changes the end of its reporting period, resulting in a reporting period that is longer or shorter than 12 months, an entity must disclose the period covered by its climate-related disclosures and:
 - (a) the reason for using a longer or shorter period; and
 - (b) the fact that the amounts presented in its climate-related disclosures are not entirely comparable.
26. Information about transactions, other events and conditions that occur after the end of the reporting period, and before the date on which the climate-related disclosures are authorised for issue, must be disclosed if non-disclosure could reasonably be expected to influence decisions that primary users make on the basis of the climate-related disclosures.

Materiality

27. An entity must disclose all *material* information about its climate-related risks and opportunities as required by Aotearoa New Zealand Climate Standards. 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*.
28. Assessing whether information could reasonably be expected to influence decisions made by primary users requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.
29. Materiality is an entity-specific aspect of relevance based on the nature and/or magnitude of the items to which the information relates. This [draft] Standard does not specify a uniform quantitative threshold for materiality or predetermine what would be material in a particular situation.

30. The application of the disclosure requirements in Aotearoa New Zealand Climate Standards are presumed to result in material information in most cases. However, if when applying the disclosure requirements to its own specific facts and circumstances, an entity determines that the resulting information is not material, it need not disclose it.
31. An entity assesses whether information, either individually or in combination with other information, is material in the context of its climate-related disclosures taken as a whole.
32. An entity must apply judgement to identify the information about climate-related risks and opportunities that is material to an entity's circumstances at each reporting date. Because an entity's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances.
33. The application of judgement in assessing whether information is material involves both quantitative and qualitative considerations. It is recognised that a quantitative assessment is not always possible.
34. An entity ordinarily assesses whether information is quantitatively material by considering the size of the impact against measures of the entity's financial position, financial performance and cash flows, as these can impact the assessment of enterprise value. For example, the anticipated impact of increases in revenue from new products or services from climate-related opportunities, or the anticipated impact of cost increases from new regulatory requirements on an entity's financial performance may be of such a size it could reasonably be expected to influence decisions that primary users make on the basis of that information.
35. In some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of its size—a quantitative threshold could be material even if it is very small or zero. For example, greenhouse gas (GHG) emissions may be seen as a proxy for an entity's exposure to transition risk, and hence be expected to influence an entity's primary users' decisions regardless of the size of those emissions. Another example is that in some circumstances the lack of processes could be material information (such as, if a governance body does not have any reporting processes in place to ensure that it is informed about climate-related risks and opportunities).
36. An entity must consider the context in which it operates when making materiality judgements. Characteristics of the entity's context include, but are not limited to, an entity's geographical location, its industry sector, or the state of the economy or economies in which an entity operates. Entities operating in the same context might share a number of these qualitative factors. Moreover, these qualitative factors could remain constant over time or could vary. In some circumstances, if an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information.
37. Material information could include, but is not limited to, information about an entity's impacts on the climate if those impacts could reasonably be expected to affect the entity's enterprise value. For example, if an entity has a negative impact on climate change, this may negatively impact its enterprise value due to subsequent regulatory action or social pressure. An entity is encouraged to think broadly about these possible feedback loops when it considers how its impacts on the climate could reasonably be expected to affect its enterprise value.
38. Information about a given class of risk may be material when taken in aggregate. For example, an entity might be exposed to several climate-related risks, each of which could cause the same type of disruption (such as disruptions to the entity's supply chain). Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material.

Comparative information, consistency of reporting, and restatement of comparatives

Comparatives for metrics

- 39. For each metric disclosed in the current reporting period an entity must disclose at least two years of comparative information.
- 40. An entity must disclose an analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period.

Consistency

- 41. Presenting climate-related disclosures consistently from one reporting period to the next allows for inter-period comparisons and provides information about trends. If an entity changes what it discloses or how it presents its information, it must provide an explanation of those changes and of the effect on the current reporting period's climate-related disclosures.
- 42. If a metric or target is replaced, or the methodology used to calculate the metric or target is changed, the explanation provided must include why the replacement metric or target or the new methodology adopted provides more useful information.

Restatement of comparatives

- 43. An entity may change what it discloses in the current reporting period for several reasons. For example, to correct a material error, improve measurement methodology, use more current estimates or reflect changes in the nature of the activities of an entity. Restatements of comparative information enhances consistency of information between reporting periods, assisting primary users to assess trends. This [draft] Standard requires restatements only for material errors made in previous reporting periods (see paragraph 44) However, it permits restatement of comparative information for other reasons (see paragraph 45).
- 44. An entity must correct material errors made in previous reporting periods by restating the comparative information for any previous reporting period(s) in which the error occurred. The entity must disclose an explanation of the error and the change. If the error relates solely to narrative information, an explanation of the error must be disclosed. Corrections of errors must be made in the first climate statement or group climate statement authorised for issue after the discovery of the errors.
- 45. When deciding whether to restate comparative information for reasons other than for correcting material errors, an entity considers the needs of its primary users and should restate comparatives if this provides the most decision-useful information. A common example of restating comparative figures would be where a metric or target is redefined. Restatement in this case would provide the best information for a primary user to assess trends and progress of an entity. For example, an entity could redefine a GHG intensity metric to expand the emission sources in the calculation from scope 1 and 2 emissions only, to also include scope 3 emissions.

Methodologies, assumptions, and estimation uncertainty

- 46. The use of reasonable estimates is an essential part of preparing climate-related disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained. Disclosures about methodologies, significant assumptions and significant estimation uncertainty are essential to ensure primary users are provided with information to understand the amounts in an entity's climate-related disclosures.
- 47. An entity must provide a description of the methodologies and significant assumptions used to calculate or estimate amounts where they are not apparent, including the limitations of those methods.

48. An entity must identify amounts it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties.
49. When deciding how much information to disclose in accordance with paragraphs 47 and 48, an entity must focus on those significant assumptions and other sources of significant estimation uncertainty that require an entity's most difficult, subjective or complex judgements.

Scenario analysis methodologies and assumptions

50. An entity must disclose the methodologies and assumptions underlying the climate-related scenarios used, and the scenario analysis process employed. The following information must be included when describing the methodologies and assumptions underlying the climate-related scenarios used, and the scenario analysis process employed:
 - (a) the climate-related scenarios it has used, including:
 - (i) a brief description of each scenario narrative;
 - (ii) the time horizons considered, including endpoints and whether the endpoints are determined by a year or a temperature target;
 - (iii) a description of the various emissions reduction pathways in each scenario and the key assumptions underlying pathway development over time, including the scope of operations covered, policy and socioeconomic assumptions, macroeconomic trends, energy pathways, carbon sequestration from afforestation and nature-based solutions and technology assumptions including negative emissions technology;
 - (iv) an explanation of why the entity believes the chosen scenarios are relevant and appropriate to assessing the resilience of the entity's business model and strategy to climate-related risks and opportunities; and
 - (v) the sources of data used to construct each scenario;
 - (b) how the scenario analysis process has been conducted, including:
 - (i) whether scenario analysis is a standalone analysis or integrated within the entity's strategy processes;
 - (ii) the governance process used to oversee and manage the scenario analysis process, including the role of the governance body and management;
 - (iii) if modelling has been undertaken, a clear description of what modelling was undertaken and why the model/s were chosen as the appropriate model/s; and
 - (iv) which external partners and stakeholders are involved.

GHG emissions methodologies, assumptions and estimation uncertainty

51. An entity must provide a description of the methodologies and significant assumptions used to calculate or estimate GHG emissions, and the limitations of those methods. When choices between different methods are allowed, or entity-specific methods are used, an entity must disclose the methods used and the rationale for doing so.
52. An entity must describe significant uncertainties relevant to the entity's quantification of its GHG emissions, including the effects of these uncertainties on the GHG emissions disclosures.
53. An entity must provide an explanation for any base year GHG emissions restatements.

Statement of compliance

- 54. An entity whose climate-related disclosures comply with Aotearoa New Zealand Climate Standards must include an explicit and unreserved statement of compliance. All requirements must be complied with for an entity to state compliance with Aotearoa New Zealand Climate Standards.
- 55. The statement of compliance must be presented prominently within an entity's climate-related disclosures.

Exposure Draft

Appendix A

Defined terms

This appendix is an integral part of NZ CS 3 *General Requirements for Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

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| Aotearoa New Zealand Climate Standards | Standards issued by the External Reporting Board which comprise the climate-related disclosure framework. |
| climate statements | For the purposes of this [draft] Standard has the same meaning as 'climate statements' as defined in the Financial Reporting Act 2013. |
| climate-related disclosures | Disclosures about climate-related risks and opportunities that are useful to primary users when they assess, and make decisions about, an entity's enterprise value, including information about its governance, strategy and risk management, and metrics and targets. |
| climate-related disclosure framework | For the purposes of this [draft] Standard, climate-related disclosure framework has the same meaning as 'climate-related disclosure framework' as defined in the Financial Reporting Act 2013. |
| enterprise value | <p>Market capitalisation of an entity plus the market value of the entity's net debt. It is determined by capital market participants, based on their estimation of the amount, timing and certainty of future cash flows spanning the short, medium and long term. Enterprise value reflects primary users' assessments of future cash flows, including the value attributed to those cash flows by primary users.</p> <p>Essential inputs in determining enterprise value include corporate reporting in financial statements, as well as reporting on climate-related risks and climate-related opportunities that are reasonably likely to affect the entity's business model over time (that is to say, affect revenue, costs, assets, liabilities, cost of capital and/or risk profile). The term captures the notion of expected value creation, preservation or erosion over time for an entity's primary users.</p> |
| group climate statements | For the purposes of this [draft] Standard has the same meaning as 'group climate statements' as defined in the Financial Reporting Act 2013. |
| interim period | A reporting period shorter than a full year. |
| 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. |
| reporting entity | An entity that is required, or chooses, to prepare climate statements or group climate statements. |
| reporting period | The period covered by climate statements or group climate statements. |

Terms defined in Aotearoa New Zealand Climate Standards and used in this [draft] Standard with the same meaning

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| climate-related risks | The potential negative impacts of climate change on an entity. See also the definitions of physical risks and transition risks. |
| climate-related opportunities | The potentially positive climate-related outcomes for an entity. Efforts to mitigate and adapt to climate change can produce opportunities for entities, such as through resource efficiency and cost savings, the adoption and utilisation of low-emissions energy sources, the |

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| | development of new products and services, and building resilience along the value chain. |
| climate-related scenario | A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Climate-related scenarios are not intended to be probabilistic or predictive, or to identify the 'most likely' outcome(s) of climate change. They are intended to provide an opportunity for entities to develop their internal capacity to better understand and prepare for the uncertain future impacts of climate change. |
| governance body | A board, investment committee or equivalent body charged with governance. |
| greenhouse gas (GHG) | The seven greenhouse gases listed in the Kyoto Protocol: carbon dioxide (CO ₂); methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF ₃), perfluorocarbons (PFCs), and sulphur hexafluoride (SF ₆). |
| management | Executive or senior management positions that are generally separate from the governance body. |
| metric(s) | A quantity indicative of the level of historical, current, and forward-looking climate-related risks and opportunities for a given entity. These indicators are used to track climate-related risks and opportunities and can also be used to measure progress against targets over the duration of the period for which a target is set. |
| physical risks | Risks related to the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns, such as sea level rise. |
| primary users | Existing and potential investors, lenders and other creditors. |
| scenario analysis | A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. Engaging in this process helps an entity to identify its climate-related risks and opportunities and develop a better understanding of the resilience of its business model and strategy. |
| scope 1 | Direct GHG emissions from sources owned or controlled by the entity. |
| scope 2 | Indirect GHG emissions from consumption of purchased electricity, heat, or steam. |
| scope 3 | Other indirect GHG emissions not covered in scope 2 that occur in the value chain of the reporting entity, including upstream and downstream GHG emissions. Scope 3 categories are purchased goods and services, capital goods, fuel-related and energy-related activities, upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, processing of sold products, use of sold products, end-of-life treatment of sold products, downstream leased assets, franchises, and investments. |
| target(s) | A specific level, threshold, or quantity of a metric that an entity wishes to meet over a defined time horizon in order to achieve an entity's overall climate-related ambition and strategy. |

transition risks

Risks related to the transition to a low-emissions, climate-resilient global and domestic economy, such as policy, legal, technology, market and reputation changes associated with the mitigation and adaptation requirements relating to climate change.

value chain

The full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end of life. Relevant activities, resources and relationships include those in an entity's operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which an entity operates.

Appendix B

Effective date

This appendix is an integral part of NZ CS 3 *General Requirements for Climate-related Disclosures* and has the same authority as the other parts of this [draft] Standard.

Effective date

- B1. An entity must apply this [draft] Standard for annual reporting periods beginning on or after [1 January 2023].

Exposure Draft

Contents: Basis for Conclusions on [draft] NZ CS 3 General Requirements for Climate-related Disclosures

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Basis for Conclusions on [draft] NZ CS 3 General Requirements for Climate-related Disclosures

This Basis for Conclusions accompanies, but is not part of, [draft] NZ CS 3 *General Requirements for Climate-related Disclosures*.

Introduction

- BC1. This Basis for Conclusions summarises the External Reporting Board (the XRB Board's) considerations in developing [draft] NZ CS 3 *General Requirements for Climate-related Disclosures* as part of the climate-related disclosure framework for Aotearoa New Zealand.²

Scope

- BC2. The XRB Board has developed Aotearoa New Zealand Climate Standards primarily for those entities that are climate reporting entities (CREs) under the Financial Markets Conduct Act 2013 (the FMCA 2013). The CREs captured are large listed debt or equity issuers, large financial entities such as registered banks, licensed insurers, credit unions, building societies, and managers of registered managed investment schemes (MIS managers).
- BC3. The XRB Board recognises that other entities may voluntarily apply this [draft] Standard. For example, asset owners will be requesting information on climate-related risks and opportunities from the companies they invest in, and these companies may look to Aotearoa New Zealand Climate Standards for how to disclose this information. Crown Financial Institutions may be directed to apply Aotearoa New Zealand Climate Standards via a letter of expectation from the Minister of Finance. There will also be entities which voluntarily decide to apply Aotearoa New Zealand Climate Standards as opposed to having been asked by their funders or owners.
- BC4. The XRB Board encourages all entities which voluntarily adopt Aotearoa New Zealand Climate Standards to apply all the requirements of Aotearoa New Zealand Climate Standards. An entity must not describe its climate statements or group climate statements as complying with Aotearoa New Zealand Climate Standards unless it complies with all the requirements of Aotearoa New Zealand Climate Standards.
- BC5. The XRB Board has the ability under the Financial Reporting Act 2013 to issue Aotearoa New Zealand Climate Standards that apply to interim periods. For the avoidance of doubt the XRB Board has clarified in paragraph 4 of NZ CS 3 that the Standards do not apply to interim periods.

Fair Presentation

- BC6. The XRB Board considers fair presentation is the overarching principle. There is a presumption that Aotearoa New Zealand Climate Standards will result in climate-related disclosures being presented fairly. Additional disclosures may be necessary if Aotearoa New Zealand Climate Standards do not achieve fair presentation.

Principles

- BC7. To underpin its requirements and help guide current and future development in climate-related disclosures, the XRB Board has developed a set of principles of high-quality reporting for climate-related disclosures. Such principles underpin the principle of fair presentation. Entities

² Note that some of the content in this Basis for Conclusions applies to the climate-related disclosure framework as a whole.

applying Aotearoa New Zealand Climate Standards will need to consider these principles when preparing climate related disclosures.

- BC8. The principles in Tables 1 and 2 are largely consistent with other mainstream international disclosure frameworks. International frameworks employ a wide variety of terminology to refer to very similar, if not identical, concepts. For example, the label 'principles' is also referred to as 'qualitative characteristics', 'attributes', 'guiding principles', 'fundamental principles' and 'reporting principles'. The XRB Board has simply used the word 'principles'. For users of draft NZ CS 3 that are familiar with the New Zealand Equivalent to the IASB Conceptual Framework for Financial Reporting, the XRB Board has also used the phrase 'principles (or qualitative characteristics)'.
- BC9. The XRB Board has made a distinction between:
- (a) Table 1: the principles that relate to the information (per se); and
 - (b) Table 2: the principles relating to the presentation of that information.
- BC10. The XRB Board has separated the concepts of comparability and consistency, as does the Task Force on Climate-related Financial Disclosures (TCFD). During the implementation period, it is easy to imagine a preparer forgoing consistency to adopt an industry metric that is becoming generally accepted. The trade-off between comparability and consistency clearly shows these are separate concepts.
- BC11. Although this [draft] Standard does not use the term faithful representation, the concepts underlying faithful representation (balance, accuracy, and completeness) have been captured in the principles.
- BC12. Cost constraint, although pervasive, is not a characteristic of information quality. Rather, it is a characteristic of the processes and procedures that provide information. Cost benefit decisions of Aotearoa New Zealand Climate Standards were considered by the XRB during its due process, through extensive outreach with preparers and stakeholders.
- BC13. The XRB Board has included the principle of coherence as a presentation principle. The XRB Board is of the view that this is in line with its broader strategic direction of integrated reporting. Coherence means presenting information in a way to achieve intra-integration within climate-related disclosures and inter-integration between climate-related disclosures and other disclosures (including information in financial statements).

Location of Disclosures

- BC14. The Act requires the preparation of climate statements or group climate statements that comply with the climate-related disclosure framework. It also requires that a copy of these climate statements or group climate statements must either be included in an entity's annual report (where an entity is required to prepare an annual report), or the annual report must include the address of (or a link to) the internet site where a copy of those statements can be accessed. However, the Act does not specify the format of the climate statements or group climate statements.
- BC15. An important intent of the climate-related disclosure framework is to integrate an understanding of climate change across an entity. For example, one of the required disclosures under Risk Management asks for an entity to describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management. The XRB Board notes that many voluntary reporters integrate their TCFD disclosures throughout their annual report, rather than separating climate risks from other risks or activities.
- BC16. The XRB Board has designed the presentation requirements to provide flexibility to entities to present their climate-related disclosures in a way that is most meaningful for their primary users, and to allow for evolution over time. An entity has the ability under this [draft] Standard to present its climate-related disclosures in a standalone document or within another document (for example, its annual report or a sustainability or integrated report). The XRB Board notes that, regardless of option chosen, an entity must ensure that the presentation principles in NZ CS 3 are met.

- BC17. If an entity presents its climate-related disclosures in another document, the XRB Board has decided that an entity must include a table within that other document that clearly identifies the location of the disclosures required by Aotearoa New Zealand Climate Standards. In the XRB Board's view, this would both facilitate the integration of climate-related risks and opportunities into the entity's overall considerations and allow users to quickly locate and identify climate-related disclosures.
- BC18. The XRB Board signaled its intent to take a flexible approach to presentation in the Governance and Risk Management consultation (GRM consultation).³ Most respondents who provided comments on presentation preferred climate-related disclosures to be fully integrated into other forms of reporting (such as annual reports) and commented that the XRB Board should not prescribe the location of an entity's climate-related disclosures.

Cross referencing

- BC19. The XRB Board has decided to allow an entity the ability to use cross referencing when presenting its climate-related disclosures. The XRB Board has developed requirements for the use of cross referencing to ensure it is used appropriately and primary users have access to all the information they need for their decision making. The XRB Board intends for cross referencing to be used only in cases where it achieves fair presentation and enhances the understandability, completeness, consistency and coherence of climate-related disclosures.

Climate statements relating to registered schemes

- BC20. The Act requires MIS managers to complete their climate-related disclosures for each separate fund. We received feedback from the GRM Consultation that MIS managers would like the XRB Board to clarify in the standards whether common information across funds can be presented at a scheme level. For example, if the disclosures related to Governance and Risk Management contain common information for each fund, can these disclosures be presented at a scheme level? The XRB Board has added paragraph 19 in response to this request for clarification.

Reporting Entity

- BC21. The XRB Board is proposing that except as otherwise required by legislation, an entity is required to prepare its climate-related disclosures for the same reporting entity as its financial statements. This decision aligns with the XRB Board's mission of high-quality, credible, integrated reporting, and is designed to enable entities to link financial statements with climate-related disclosures.

Value Chain

- BC22. Respondents to the Strategy and Metrics and Targets consultation (SMT consultation) requested clarification regarding the treatment of joint ventures when making climate-related disclosures.⁴ The XRB Board notes that climate-related risks and opportunities relate to activities, interactions, and relationships, and to the use of resources along an entity's value chain. When considering its exposure to climate-related risks and opportunities, an entity must consider the exposure of its value chain as well. Investments that an entity has in other entities, for example, associates and joint ventures, are also considered to be part of an entity's value chain. The XRB Board decided to add paragraph 22 to this draft Standard in response to the request for clarification.

³ See BC14 in draft NZ CS 1 for more on the GRM consultation.

⁴ See BC15 in draft NZ CS 1 for more on the SMT consultation.

Reporting period

- BC23. In the XRB Board's view climate-related disclosures should be made for the same reporting period as the financial statements. As some reporting entities are required or elect to publish half-year financial statements the XRB Board has clarified that climate-related disclosures should be made for the same reporting period as the annual financial statements.

Materiality

- BC24. Materiality is a pervasive concept that applies across all the requirements in Aotearoa New Zealand Climate Standards. The XRB Board included a proposed definition of materiality and a draft section on materiality in its SMT consultation.

Primary users

- BC25. The XRB Board has defined primary users as 'existing and potential investors, lenders and other creditors'. Some respondents from both the GRM and the SMT consultations requested that the definition of primary user be widened to accommodate other stakeholders (for example, in the for-profit sector this could include customers and employees; in the public sector, this could include an even wider range of users, such as ratepayers, resource providers or service recipients). The XRB Board note that the scope of entities included in the climate-related disclosure regime relates to the fact that the entities or their products can be invested in. The XRB Board considers that this provides a strong rationale to provide a tightly focused primary user definition that emphasises investor needs, rather than broadening it to other users.
- BC26. The XRB Board acknowledges that some public benefit entities are included in the definition of CREs under section 461O of the FMCA 2013. However, these entities are included by virtue of providing an investment product, not because the entities are public benefit entities. The XRB Board considers that the information disclosed under this regime should be targeted at investors into those products. If the scope of entities changes in the future, the XRB Board acknowledges that this may warrant a change to the primary user definition, and that further consultation would be needed at that point.

Definition of material

- BC27. In the SMT consultation, the XRB Board included a proposed definition of materiality and proposed materiality requirements. The proposed materiality definition is based on that used in financial reporting. However, the focus is on the effects of climate-related risks and opportunities on an entity's enterprise value, that is, a broader set of information than what is recognised in the financial statements.
- BC28. Most respondents supported the definition of materiality as proposed by the XRB Board. Some respondents suggested that the definition of materiality should be aligned with the 'reasonable person test' used in the FMCA 2013. The XRB Board does not agree that moving away from a primary user test to a reasonable person test would be helpful. With respect to climate-related disclosures to assess enterprise value (including disclosures relating to forward-looking information, estimations, and uncertainties), the relevant audience is the primary user. This audience is expected to be educated and experienced enough to understand basic technical documents, which the XRB Board considers is over and above the 'reasonable person test'. However, the XRB Board does acknowledge that different entities may have primary users with different levels of sophistication (for example, KiwiSaver investors as opposed to an investor into listed debt), and an entity should consider this when presenting climate-related disclosures.
- BC29. A few respondents to the SMT consultation suggested that the XRB Board should include a disclosure about how an entity has made materiality assessments. The XRB Board decided not to include such a disclosure as it was concerned that any requirement may result in boiler plate descriptions that would not provide useful information to primary users.

- BC30. Some respondents requested clarification on how the proposed materiality definition related to that used in financial reporting. As noted above, the definition of materiality is based on the definition used in financial reporting. However, the XRB Board notes that materiality judgements about climate-related disclosures will differ from those for financial reporting. Materiality in the context of climate-related disclosures is assessed in relation to the effect of climate-related risks and opportunities on enterprise value. In contrast, materiality in financial reporting is generally assessed in the context of the recognised balances within the financial statements.
- BC31. A third of respondents to the SMT consultation requested that the XRB Board consider introducing the concept of double materiality either now or in the future. As one respondent summarised, "...a double materiality lens requires an assessment of both inwards and outwards impacts (i.e., not only the material impact of climate change on the entity itself, but also the entity's material impact on climate change)".
- BC32. In the SMT consultation, the XRB Board highlighted its view that the enterprise value lens also includes any impacts that an entity may have on climate change that circle back to have a subsequent impact on an entity's enterprise value. For example, if an entity has a significant negative impact on climate change, this may negatively impact its enterprise value due to subsequent regulatory action or social pressure.
- BC33. The XRB Board acknowledges the topical and ongoing global debate on 'double' versus 'single' materiality. The XRB Board has had many discussions on this topic and what it means for the proposed climate-related disclosure framework. The XRB Board considers that using simplified labels such as 'single' or 'double' materiality may serve to reduce, rather than enhance, different understandings of this topic. It also questioned whether the directional effect really matters (i.e., impacts of climate on an entity versus impacts of an entity on the climate), when the fundamental concept of materiality is whether providing or withholding the information is likely to influence primary users' decision making. The XRB Board further notes that the proposed requirements in draft NZ CS 1 already require information to be disclosed about an entity's impact on climate change for example, the disclosure of scope 1, 2 and 3 GHG emissions, the transition plan aspects of an entity's strategy, and disclosure of an entity's targets.
- BC34. The XRB Board conducted further outreach with stakeholders to understand what material information they thought would be missing from the climate-related disclosures if the XRB Board retained its proposed definition of materiality. A key message the XRB Board took away from the further outreach was that it was important to signal to an entity that it needs to take a broad view when considering how its impacts on the climate could reasonably be expected to affect the assessments that primary users make about an entity's enterprise value.
- BC35. The XRB Board has decided to retain the lens of enterprise value, but in response to feedback received, has clarified in its proposals that an entity is encouraged to think broadly about possible feedback loops when it considers how its impacts on the climate could reasonably be expected to affect its enterprise value (see paragraph 37). In the XRB Board's view this amendment plus the proposed requirements in draft NZ CS 1 (that require information on impacts on climate, as noted above in paragraph BC33) will mean the primary users are not receiving less information than if the XRB Board proposed a different materiality definition.
- BC36. Some of the respondents expressed concern that the proposed definition of materiality could be interpreted as including information that could influence decisions of primary users now or at any point in the future. The XRB Board notes that materiality judgements are made at the reporting date (what information will influence primary users' assessments of enterprise value as at the reporting date). In the XRB Board's view this is clearly explained in paragraph 32 of draft NZ CS 3.
- BC37. The XRB Board has made a small amendment to the proposed definition of materiality and removed 'across all time horizons, including in the long term', as it noted that this was causing confusion and that consideration of a longer timeframe is implicit in the definition of enterprise value.

Materiality requirements

- BC38. As noted above, the XRB Board included a draft materiality section in the SMT consultation. The XRB Board received feedback on specific proposed requirements in the draft section and made the following changes in response to feedback received.

- (a) Clarified that the application of the disclosure requirements in Aotearoa New Zealand Climate Standards are presumed to result in material information in most cases. However, if when applying the disclosure requirements to its own specific facts and circumstances, an entity determines that the resulting information is not material, it need not disclose it.
- (b) Deleted the paragraph on the provision of additional information as this is already covered by the fair presentation requirements.
- (c) Deleted the proposed paragraph that required an entity to consider the full range of possible outcomes and likelihood of the possible outcomes within that range.
- (d) Amended the proposed paragraph on materiality of a class of risk when considered in aggregate.

Comparative Information, Consistency of Reporting, and Restatement of Comparatives

- BC39. The purpose of the consistency principle is to provide information about trends to primary users of climate-related disclosures. Disclosing climate-related metrics consistently from year to year will facilitate comparative and trend analysis. The XRB Board agreed that for each metric disclosed an entity must present at least two years of comparative information as this will provide a basis for primary users to track information over time. The XRB Board notes that this is a minimum requirement and an entity can provide historical data for as many years as it would like.
- BC40. The XRB Board proposes that all material errors in previously reported metrics and targets would be corrected by restating comparative information. Such errors might arise through calculation mistakes, mistakes in applying the definitions for metrics and targets, oversights or misinterpretations of facts, and fraud.
- BC41. An entity might change its current year's climate-related disclosures for several reasons; including changes in measurement methodology, changes in amounts because of more current estimates, or changes in the nature of an entity's activities. Draft NZ CS 3 does not require restatement for changes in disclosure unless such restatement would improve the information for primary users. An entity needs to explain the nature of the change, why any new metric is more useful, and the effect on the current reporting period's climate-related disclosures.
- BC42. The XRB Board considered adding a disclosure requirement for the provision of comparative information for narrative and descriptive information when it was relevant to understanding the current reporting period's climate-related disclosures. In the XRB Board's view, providing comparative narrative and descriptive information would be unnecessary in most circumstances because:
- (a) if the narrative and descriptive information is unchanged from the previous reporting periods, the disclosure of the current reporting period's information is likely to provide primary users with all the information that is relevant to an understanding of the current reporting period's climate-related disclosures; or
 - (b) if the narrative and descriptive information has changed from the previous reporting periods, the disclosures required by paragraph 40 of draft NZ CS 3 are likely to provide any information about the previous reporting period's narrative or descriptive information that is relevant to understanding the current reporting period's climate-related disclosures.

Methodologies, Assumptions and Estimation Uncertainty

- BC43. Disclosures about methodologies, significant assumptions and significant estimation uncertainty are essential to ensure primary users are provided with information to understand the amounts in an entity's climate-related disclosures.

- BC44. The SMT consultation proposed disclosure requirements for methodology and assumptions for both the Strategy, and Metrics and Targets sections in NZ CS 1. The XRB Board decided that these disclosure requirements were better placed in this [draft] Standard (rather than in NZ CS 1) as general requirements with additional specific disclosures where required.
- BC45. The disclosures on methodologies and assumptions relating to scenario analysis were drawn from TCFD guidance. This guidance recommended disclosure on specific aspects of scenario analysis methodologies and assumptions because of their importance for primary users, namely enabling primary users to understand the process of the scenario analysis undertaken and the assumptions within the scenarios. The intent is to avoid a situation where scenarios are a 'black box' to primary users. Some of the requirements in draft NZ CS 3 are additional to the TCFD guidance because they reflect New Zealand-specific circumstances. For example, draft NZ CS 3 contains a more explicit reference to 'carbon sequestration from afforestation and nature-based solutions', given their relative importance in New Zealand's emissions reduction pathways.
- BC46. The XRB Board considered the compliance costs associated with the proposed disclosures on methodologies and assumptions relating to scenario analysis. The XRB Board also considered the concerns raised by respondents that the proposed disclosures could potentially lead to the disclosure of immaterial detail which could obscure material information. The XRB Board concluded that these disclosures are fundamental for primary users to be able to compare across the disclosures made by different entities. The XRB Board also notes that cross referencing enables an entity to disclose detailed information relating to methodologies and assumptions in a location where it does not inhibit primary users from understanding other disclosures.
- BC47. When the requirement to prepare a GHG emissions report was removed following the SMT consultation (see paragraph BC49 in draft NZ CS 1), the XRB Board decided to add additional disclosure requirements in relation to GHG emissions (see paragraphs 51 to 53) to ensure that an entity would provide enough information for primary users to be able to understand how they have measured their GHG emissions. These disclosure requirements have been informed by reporting requirements of the GHG Protocol, ISO 14064-1:2018 and ISAE NZ 3410.

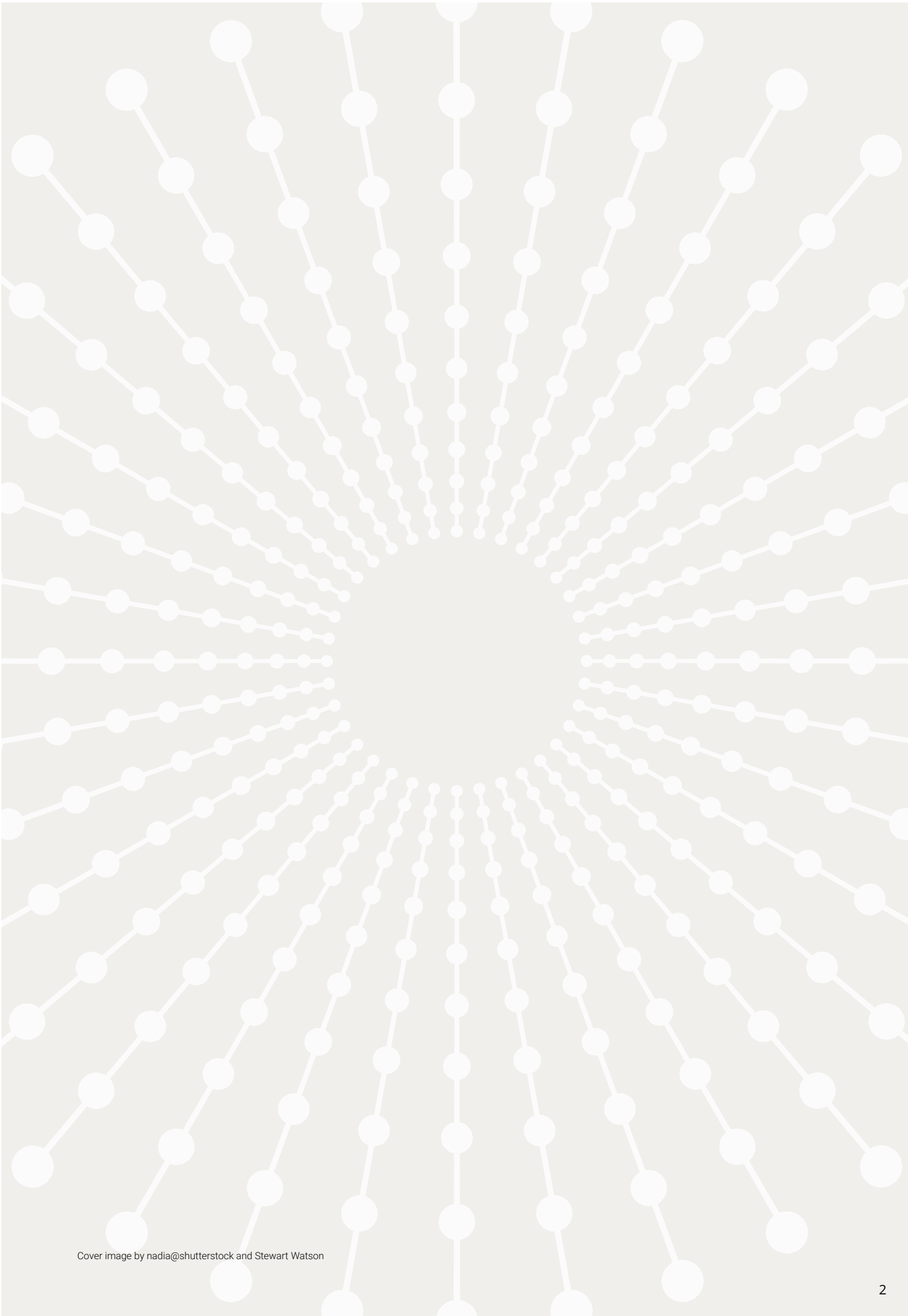
Aotearoa New Zealand Climate Standards

Climate-related Disclosures

Climate-related Disclosure Framework
Consultation Document

July 2022

Submissions due **26 September 2022**



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Message from the Chair and Chief Executive

The publication of the exposure drafts (EDs) of Aotearoa New Zealand Climate Standards is a major milestone. The External Reporting Board (XRB) is very pleased to be at this point in the process and would like to acknowledge the significant time and effort that our stakeholders have contributed to get us to where we are today. We cannot emphasise enough how the participation of entities, advisors and others, has informed and enhanced this work. We hope this involvement will continue as we head towards the home stretch of developing these standards.

This consultation document is one part of a suite of ED materials which you are encouraged to read together, as a package. We have attempted to remain principles based, globally consistent, and ambitious in developing the climate-related disclosure framework – please give us feedback on whether we have achieved the right balance.

For this consultation we have, for the first time, published drafts of supporting staff guidance. We anticipate that the guidance and standards, read together, should provide a clear picture to entities of the ‘what’ and ‘how’ of the disclosure requirements.

Since our last consultation in March 2022, the International Sustainability Standards Board (ISSB) has published EDs of their climate standard and general sustainability standard. We are paying close attention to the ISSB’s work and are acutely aware of the need to enable New Zealand entities to report in a globally consistent manner. To that end, we will continue to engage with the ISSB and monitor their work.

As well as climate-related disclosures, in 2021 the XRB’s mandate also expanded to enable us to issue non-binding guidance on non-financial reporting. Our aim is to develop a credible, world-class sustainability reporting framework that, in the first instance, will focus deeply on te ao Māori. Our Ngā pou o te kawa ora¹ project aims to develop a framework for Māori entities to externally report the intergenerational and interconnected impact of the various activities they undertake. This is a longer-term project for the XRB which we will progress at a more moderate pace than our delivery of the climate-related disclosure framework, to be published by December 2022.

With the December 2022 deadline in mind, we are looking forward to constructive and solutions-focused feedback on the EDs.

Michele Embling

Chair

April Mackenzie

Chief Executive



¹ This kōrero refers to the pillars that are the principles of life.



PART ONE: INTRODUCTION



1.

What is this consultation document about?

The *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021* ([the Act](#)) gives the External Reporting Board (XRB) a mandate to issue a climate-related disclosure framework.

This consultation document relates to the exposure drafts (EDs) of the three proposed standards that the XRB intends to comprise the climate-related disclosure framework, collectively known as *Aotearoa New Zealand Climate Standards* (Figure 1). We are seeking feedback from you to help us finalise these standards so that we can issue them in December 2022.



Figure 1: The climate-related disclosure framework

Table 1 details the documents that are part of the current consultation.

Table 1: Consultation documents

| Document | Contents | Link |
|---|--|---|
| Consultation document | The key context in which we have developed these proposals and consultation questions for the climate-related disclosure framework and guidance | |
| Exposure draft of NZ CS 1: Climate-related Disclosures | The disclosure requirements relating to the four thematic sections (Governance, Risk Management, Strategy, and Metrics and Targets) and the assurance requirements |  |
| Exposure draft of NZ CS 2: First-time Adoption of Aotearoa New Zealand Climate Standards | The adoption provisions available to climate reporting entities the first time that they are required to disclose |  |
| Exposure draft of NZ CS 3: General Requirements for Climate-related Disclosures | General requirements and principles for preparers to follow when making disclosures under Aotearoa New Zealand Climate Standards |  |
| Draft guidance for all sectors | Draft staff guidance relating to draft NZ CS 1 that is applicable for all types of climate reporting entities |  |
| Draft guidance for MIS managers | Draft staff guidance relating to draft NZ CS 1 and draft NZ CS 3, specific for managers of registered managed investment schemes (MIS managers) |  |
| Comparison tables | Comparison between draft NZ CS 1 and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and guidance |  |
| | Comparison between draft NZ CS 1 and the International Sustainability Standards Board draft climate standard (IFRS S2 Climate-related Disclosures) |  |

The XRB intends to issue Aotearoa New Zealand Climate Standards, and available guidance documents, in December 2022.

Part One of this document begins by explaining the process for providing feedback. It then provides a short explainer on how to read the EDs and an update on the domestic and international context.

Part Two provides the key context for the development of Aotearoa New Zealand Climate Standards.

Part Three concludes the document with the consultation questions that reflect on the EDs and the guidance together as a package.



2.

Our journey so far

As part of the due process for developing standards, we have a statutory obligation to consult with stakeholders. These EDs are the culmination of an extensive consultation process that the XRB began at the end of 2020, including two formal consultation periods in October 2021 and March 2022.

All previous consultation and feedback documents can be found on [our website](#). We have taken into consideration all the formal and informal feedback received in developing the EDs of Aotearoa New Zealand Climate Standards which are now being issued for final consultation.

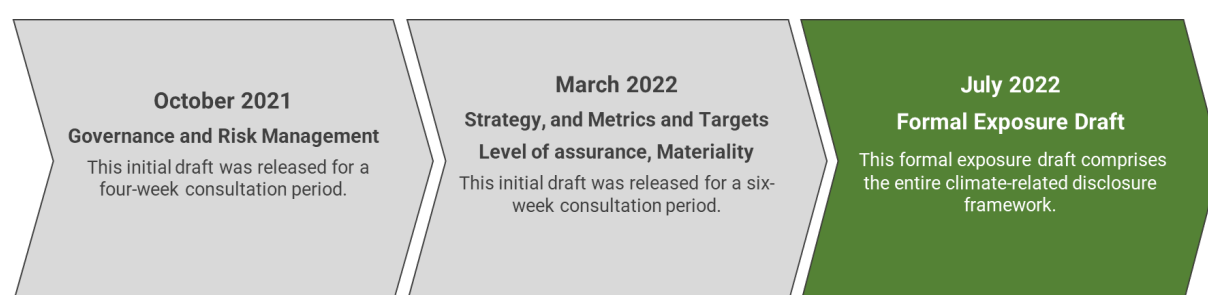


Figure 2: Consultation timeline

As a result of consultation, we are aware that the proposed disclosure requirements are substantial, but equally, that they are being demanded by primary users to inform their decision making. Importantly, our aim is for the disclosures made by climate reporting entities (CREs) to be high quality and meet the disclosure requirements from the outset, but we are mindful that the underlying practices within CREs will become more sophisticated over time.

The XRB intends to begin a post-implementation review of the climate-related disclosure framework no later than December 2025.



3.

How can you contribute?

Submissions on this consultation document can be provided via any of the avenues below.

- Commenting on our website: <https://www.xrb.govt.nz/standards/climate-related-disclosures/consultation/exposure-draft>
- Asking questions and providing comments at any of our consultation events: see <https://xrb.govt.nz/events/> for a list of relevant events.
- Commenting on our LinkedIn posts: <https://www.linkedin.com/company/external-reporting-board/>
- Emailing us: climate@xrb.govt.nz
- Sending a letter to: External Reporting Board, PO Box 11250, Manners St Central, Wellington 6142.

The closing date for submissions is **26 September 2022**. Submissions must be received by this date to enable the XRB to issue Aotearoa New Zealand Climate Standards by December 2022. We appreciate detailed comments, whether supportive or critical, as both supportive and critical comments are essential to a balanced view. We will consider all comments received.

This consultation document contains several questions (in Section 9). Responses to these questions are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, suggest an alternative. Please comment on any or all of the questions or any parts of the EDs that are relevant to you.



4.

How to read the exposure drafts

Aotearoa New Zealand Climate Standards are secondary legislation and apply to CREs as defined in the Act. They are designed as a package and should be read together (Figure 3).

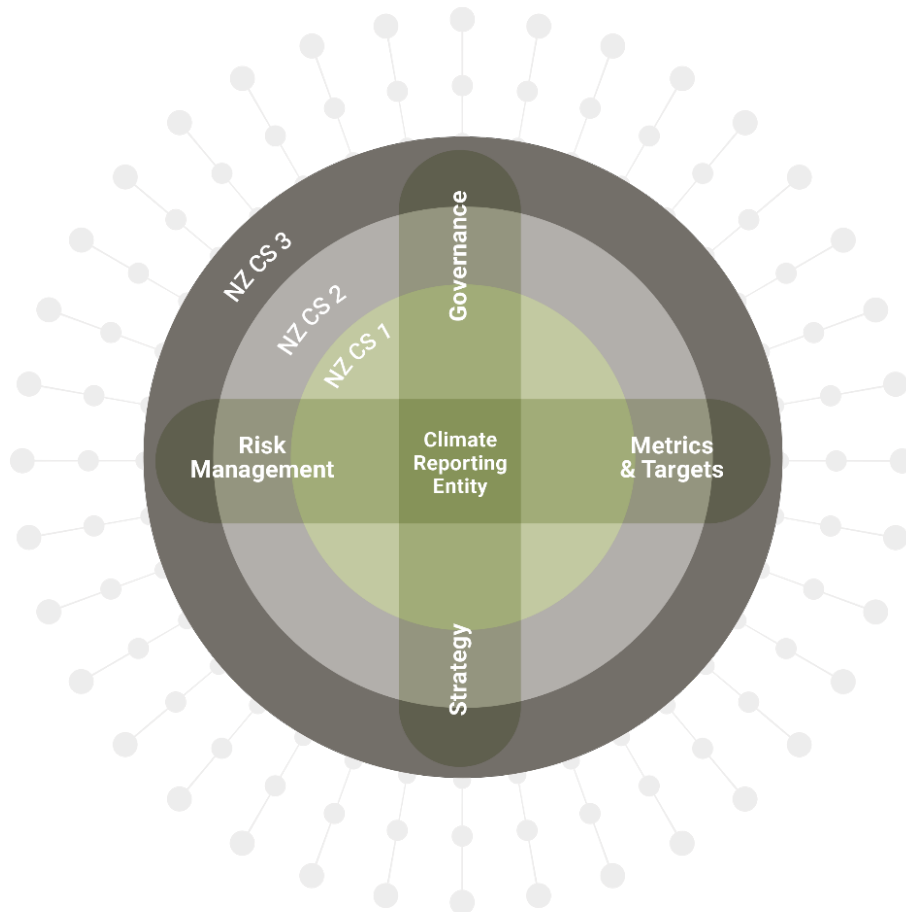


Figure 3: How Aotearoa New Zealand Climate Standards fit together

All three standards have defined terms that are integral parts of the standard. The defined terms are shown in *italics* the first time that they are used. All three standards also have a basis for conclusions. These bases for conclusions accompany but are not part of the standards. They are intended to provide useful explanations of our decision-making process during the standards' development.

The following sub-sections explain the specific structures of each of the standards.

4.1. Reading draft NZ CS 1

Draft NZ CS 1 has the following core structure for each of the four thematic sections (underneath an objective and scope for the standard as a whole):

| Heading | Content | Section | Paragraph(s) |
|-------------------------------------|---|---------------------|--------------|
| Disclosure objective | Explains the disclosure objectives for each of the four sections, i.e., Governance, Strategy, Risk Management, and Metrics and Targets. The purpose of the disclosure objective(s) is to describe why the information disclosed is useful to primary users. The disclosure objective(s) assists entities when making materiality judgements so that relevant material information is provided to primary users. | Governance | 5 |
| | | Strategy | 9 |
| | | Risk Management | 16 |
| | | Metrics and Targets | 19 |
| Overarching disclosure requirements | To meet the disclosure objective, these are the overarching disclosure requirements. Entities must disclose against these disclosure requirements. | Governance | 6 |
| | | Strategy | 10 |
| | | Risk Management | 17 |
| | | Metrics and Targets | 20 |
| Sub-disclosure requirements | To meet the disclosure objective, these are the more detailed disclosure requirements underneath the overarching disclosure requirements. These further specify what the disclosures should include. Note that NZ CS 3 requires that when compliance with the specific requirements in Aotearoa New Zealand Climate Standards (both the overarching and sub-disclosure requirements) is insufficient to show a fair presentation, additional disclosures must be provided. However, an entity must ensure that relevant information is not obscured by the inclusion of immaterial detail. | Governance | 7,8 |
| | | Strategy | 11-15 |
| | | Risk Management | 18 |
| | | Metrics and Targets | 21-23 |

The greenhouse gas (GHG) assurance requirements that apply to CREs are detailed in a separate section in draft NZ CS 1 (paragraphs 24 and 25). These assurance disclosure requirements do not have a separate disclosure objective as they support the overall objective of draft NZ CS 1.

4.2. Reading draft NZ CS 2

First-time adoption standards offer various provisions to entities when new standards or requirements are to be applied for the first time.² Draft NZ CS 2 provides a number of first-time adoption provisions (adoption provisions) that apply to specific disclosure requirements in either draft NZ CS 1 or draft NZ CS 3.

These adoption provisions are optional. Those CREs that are more advanced in their climate reporting journey may choose not to apply any of the adoption provisions that are made possible in draft NZ CS 2. If a CRE does elect to apply an adoption provision, disclosure of its use is required alongside the CRE's statement of compliance.

Some of the proposed adoption provisions require the entity to provide an alternative piece of information to primary users. This alternative information is made clear in the description of the adoption provision in draft NZ CS 2.

4.3. Reading draft NZ CS 3

The principles and general requirements in draft NZ CS 3 are the foundation for the climate-related disclosure framework. We recommended reading draft NZ CS 3 first and referring to it when reading the disclosure requirements in draft NZ CS 1 and the adoption provisions in draft NZ CS 2.

Draft NZ CS 3 is structured under the core concept of fair presentation, and then provides a set of information principles and presentation principles. It provides other important requirements such as materiality, and the disclosure of methodologies and assumptions.

Draft NZ CS 3 has been written in a more comprehensive manner than draft NZ CS 1 and draft NZ CS 2 because we are not intending to provide additional staff guidance specific to draft NZ CS 3.³ We have however flagged in the staff guidance related to draft NZ CS 1 where we consider it is particularly important for CREs to refer back to draft NZ CS 3 when thinking about how the disclosure requirements apply to their activities.

² These can include practical expedients, phased adoption, or relief from providing comparative information (comparative information is disclosures, including amounts, for one or more prior years in respect of disclosures included in the report for the current year).

³ Except for MIS managers: see section 8.3 for more information.



5.

An update on the domestic and international context

5.1. Domestic

Since our last consultation in March 2022, a significant amount of domestic activity has occurred that is relevant to climate-related disclosures.

- Publication of the first three emissions budgets and the accompanying first Emissions Reduction Plan. These budgets and the plan (and plans published in subsequent years) may influence the climate-related risks and opportunities identified by CREs.
 - [Read about emissions budgets on the Ministry for the Environment \(MFE\) website.](#)
 - [Read about the Emissions Reduction Plan on the MFE website.](#)
- Consultation on the draft National Adaptation Plan. CREs are also likely to consider the information in the National Adaptation Plan when making their disclosures.
 - [Read about the draft National Adaptation Plan on the MFE website.](#)
- The beginning of reporting under the Carbon Neutral Government Programme (CNGP). The climate-related disclosure framework is intended to be complementary with the requirements under the CNGP, as far as is practicable, in order to provide a consistent approach to emissions measurement (especially for government organisations captured under the Act).
 - [Read about the CNGP on the MFE website.](#)
- The Reserve Bank of New Zealand (RBNZ) has begun to incorporate climate change into its stress testing programme (with the inclusion of drought conditions in the bank stress test scenario and severe weather events in the insurance stress test). Several CREs are also subject to these stress testing requirements, so the XRB and RBNZ have been working closely together to coordinate requirements where necessary.
 - [Read about the stress testing programme on the RBNZ website.](#)

5.2. International

International Sustainability Standards Board

In March 2022 the International Sustainability Standards Board (ISSB) published its first two proposed IFRS® Sustainability Disclosure Standards, which, when final, are intended to form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors when assessing enterprise value.

The two proposed standards are:

- draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; and
- draft IFRS S2 Climate-related Disclosures.

Draft IFRS S1 applies to all sustainability topics, not just climate. It provides a high-level framework for entities to disclose information about all sustainability topics that are material to them.

Draft IFRS S2 is the 'climate' standard and is to be applied in conjunction with draft IFRS S1. Draft IFRS S2 proposes requiring an entity to disclose information that would enable an investor to assess the effect of climate-related risks and opportunities on its enterprise value.

The draft standards build on the prototypes previously published by the IFRS Foundation's Technical Readiness Working Group (TRWG). The requirements in draft IFRS S2 are also largely consistent with the four recommendations and eleven recommended disclosures published by the [TCFD](#). The XRB has published two comparison documents to aid entities in understanding how draft NZ CS 1 compares to these two international frameworks.

- [Comparison](#) between draft NZ CS 1 and the TCFD recommendations and guidance.
- [Comparison](#) between draft NZ CS 1 and the ISSB draft climate standard (IFRS S2 Climate-related Disclosures).

XRB staff have also submitted a response to the ISSB's consultation on draft IFRS S1 and S2 which is available [on our website](#).

The ISSB plans to issue its standards before the end of 2022, when they will be available for immediate voluntary adoption (e.g., by entities or jurisdictions). We will review the ISSB's final standards once they are issued and determine whether and how to incorporate them into New Zealand's reporting landscape.

Country and jurisdiction-level requirements

Notable developments include:

- The United States Securities and Exchange Commission (US SEC) released their proposed framework for mandatory climate-related disclosures for public consultation in March 2022. Similar to the XRB's mandate, the proposal aims to ensure both domestic and foreign entities are disclosing climate-related information, including financial risks and climate-related metrics, in their US financial statements. The submission period closed on 17 June 2022.
 - [Read about the proposed framework on the US SEC website](#).
- The United Kingdom launched a Transition Plan Taskforce in April 2022 to develop a gold standard for climate transition plans and released a call for evidence on a sector-neutral framework for private sector transition plans.
 - [Read about the call for evidence on the Transition Plan Taskforce website](#).
- The European Commission launched a public consultation on their first set of draft European Sustainability Reporting Standards (ESRS) in April 2022. There are three categories of ESRS: cross-cutting standards with general provisions, topical standards relating to a particular sustainability topic or sub-topic, and sector-specific standards. ESRS will cover environment, social and governance-related matters. The April 2022 consultation focused on the proposed cross-cutting and topical standards, with the proposed sector-specific standards to be released at a later date.
 - [Read about the ESRS on the European Commission website](#).

We are closely monitoring these developments and engaging both at an international and country-to-country level to inform our work.



PART TWO: **AOTEAROA NEW ZEALAND** **CLIMATE STANDARDS**



6.

Draft NZ CS 1: Climate-related Disclosures

6.1. Draft NZ CS 1

The ED of NZ CS 1 is available on our [website](#).

6.2. Draft NZ CS 1: Our process

Draft NZ CS 1 was released in two parts for early consultation: [Governance and Risk Management](#) in October 2021, and [Strategy and Metrics and Targets](#) in March 2022. Feedback documents for each round of consultation are available on our [website](#) alongside each of the consultation documents.

Key themes emerging from the consultation included:

- the importance of keeping draft NZ CS 1 globally aligned (e.g., with the TCFD and ISSB);
- making it possible for entities to start on their climate reporting journey (while ensuring the standard remained ambitious); and
- challenges regarding the disclosure of certain information such as scope 3 emissions or quantitative financial information.

Table 2 summarises the main changes made in response to stakeholder feedback for each section of draft NZ CS 1 between the first consultation round (i.e., in October 2021 or March 2022) and the exposure draft. Changes were also made to ensure that draft NZ CS 1 makes sense as a coherent standard and could be read and understood in a logical manner. This included removing the four separate explanatory paragraphs, as this information is now included in draft NZ CS 3.

Table 2: Main changes for sections of draft NZ CS 1 between first consultation round and ED

| Section | Main changes between first consultation round and ED |
|-------------------|--|
| Governance | <p>Changed 'board' to the more generic term 'governance body'</p> <p>Combined the disclosures relating to holding management accountable, and clarified that the disclosure on remuneration policies is 'whether, and if so how'</p> <p>Amended the disclosure on the 'board accessing expertise' to ensuring the governance body has 'appropriate skills and competencies available to them'</p> <p>Clarified that the focus is on developing and overseeing an entity's strategy, rather than incorporating issues into governance processes</p> <p>Amended management 'reporting to' the board, to management 'engaging with' the governance body</p> |

| | |
|----------------------------|--|
| Risk Management | <p>Combined several of the disclosures for clarity</p> <p>Amended the disclosure on value chain stages covered to disclosure of whether any parts of the value chain are excluded</p> <p>Deleted the disclosure on making decisions to mitigate, transfer, accept or control climate-related risks</p> |
| Strategy | <p>Updated the disclosure objective to include the intention to move towards a low-emissions and climate-resilient future state</p> <p>Restructured the section to clearly step from the overarching disclosure requirements to the sub-disclosure requirements (including adding sections) in a way that better reflected an entity's process when working through the disclosure requirements</p> <p>Clarified the distinction between current impacts of climate change (including current financial impacts) and anticipated impacts of climate change (including anticipated financial impacts)</p> <p>Made more explicit that reasons must be given if quantitative information for current or anticipated financial impacts cannot be disclosed</p> <p>Increased the minimum number of climate-related scenarios from two to three, and increased the upper bound temperature scenario from 2°C to 3°C</p> <p>Moved the disclosures relating to methodologies and assumptions for scenario analysis from draft NZ CS 1 to draft NZ CS 3</p> |
| Metrics and Targets | <p>Made the disclosure objective more succinct</p> <p>Reordered the disclosures relating to industry- and entity-specific metrics (kept them in the overarching disclosure requirements rather than as separate sub-disclosure requirements)</p> <p>Clarified that some disclosure requirements for targets relate only to GHG emissions</p> <p>Added a disclosure requirement for GHG emissions targets in relation to the use of offsets</p> <p>Removed the requirement to prepare a separate GHG emissions report</p> <p>Removed the requirement to disclose the source of emission factors and the global warming potential (GWP) rates used or a reference to the GWP source</p> <p>Moved the disclosures relating to methodologies and assumptions for Metrics and Targets from draft NZ CS 1 to draft NZ CS 3</p> |
| Assurance | <p>Because a separate GHG emissions report is no longer required, removed the separate GHG emissions report from the scope of the assurance engagement</p> |

The basis for conclusions on draft NZ CS 1 provides more detail on key decisions made during the development of the standard, including how stakeholder feedback was assessed and influenced the ED.

6.3. Draft NZ CS 1: Guidance

The following staff draft guidance documents are issued as part of this exposure draft consultation:

- Draft NZ CS 1: Guidance for all sectors⁴ ([here](#)); and
- Guidance for MIS managers ([here](#)).

These documents aim to support CREs when making their disclosures, and to support consistent application of the disclosure requirements. Guidance is non-mandatory and issued by XRB staff. It will be issued and updated over time on an as-needed and as-available basis as climate-related information itself is updated, and user expectations evolve.

These guidance documents are in draft format and will evolve over time. We will continue to develop guidance over the rest of 2022 and beyond. As this is guidance to support a new regime, we are very interested to hear stakeholder views about its usefulness, particularly regarding the level of granularity and specificity.

We are also providing draft staff guidance that is specific for managers of registered managed investment schemes (MIS managers) for both draft NZ CS 1 and draft NZ CS 3 as part of this consultation. This is because of the way that the Act is worded, in that MIS managers are CREs only “in respect of the scheme” they manage (see section 461O(2) of the Act). This specific wording means that MIS managers require additional and early guidance on how to interpret some of the disclosure requirements in a way that is different for other CREs. Further CRE-specific guidance is currently being developed and will be issued as soon as it is available.

The guidance is not intended to specify a level of performance that CREs should achieve, nor should it be taken as describing the only ‘correct’ way to carry out the activities that draft NZ CS 1 asks for disclosures about. Rather, the guidance is intended to provide contextual information and clarification on how the XRB has interpreted the guidance documents published by the TCFD and other bodies, as they relate to the specific disclosure requirements in draft NZ CS 1.

The XRB has also published:

- a guidance document for sector-level scenario analysis;
- two short explainer documents on measuring GHG emissions; and,
- a fact sheet outlining the basics of scenario analysis.

These are available [on our website](#).

⁴ In the context of the guidance for all sectors, ‘sector’ refers to type of climate reporting entity (e.g., listed debt and equity issuers), not industry sector, or public or private sector.



7.

Draft NZ CS 2: First-time Adoption of Aotearoa New Zealand Climate Standards

7.1. Draft NZ CS 2

The ED of NZ CS 2 is available on our [website](#).

7.2. Draft NZ CS 2: Our process

The proposed first-time adoption provisions (adoption provisions) within draft NZ CS 2 were released alongside the respective parts of draft NZ CS 1. In October 2021 we did not propose any adoption provisions for Governance and Risk Management, and we heard no major disagreement on this proposal.

In the March 2022 consultation, no adoption provisions were proposed for Metrics and Targets, but some were proposed for Strategy. We had a substantial amount of feedback on the proposed adoption provisions for Strategy, and many calls to provide adoption provisions for Metrics and Targets (mostly in relation to measuring and assuring scope 3 emissions).

The basis for conclusions on draft NZ CS 2 provides more detail on key decisions made during the development of the standard, including how stakeholder feedback was assessed and influenced the provisions included in the ED.

Table 3 provides a summary of the proposed adoption provisions in draft NZ CS 2 in relation to the specific disclosure requirements in both draft NZ CS 1 and draft NZ CS 3.

Table 3: Summary of proposed first-time adoption provisions

| Name of first-time adoption provision | Draft standard, section and paragraph number | Proposed first-time adoption provision | |
|--|--|--|------------------------------------|
| | | Year one (first reporting period) | Year two (second reporting period) |
| First-time adoption provision 1: Current financial impacts | NZ CS 1 Strategy 11(b) | Exemption provided | - |
| First-time adoption provision 2: Time horizons associated with financial impacts | NZ CS 1 Strategy 13(b) | Exemption provided | - |
| First-time adoption provision 3: Anticipated financial impacts | NZ CS 1 Strategy 14(b) | Exemption provided | - |

| | | | |
|--|---|--|---|
| First-time adoption provision 4: Transition plan aspects of an entity's strategy | NZ CS 1 Strategy 15(b) and 15(c) | Exemption provided Required to disclose progress towards developing the transition plan aspects of its strategy | - |
| First-time adoption provision 5: Scope 3 GHG emissions | NZ CS 1 Metrics and Targets 21(a)(iii) | Exemption provided (although disclosure is encouraged) | - |
| First-time adoption provision 6: Comparatives for metrics | NZ CS 3 Comparatives 39 | Exemption provided | Only one year of comparative information required for each metric |
| First-time adoption provision 7: Analysis of trends | NZ CS 3 Comparatives 40 | Exemption provided | Exemption provided |

7.3. Draft NZ CS 2: Guidance

At present, we do not intend to provide any separate staff guidance for draft NZ CS 2 as we consider it is sufficiently clear.



8.

Draft NZ CS 3: General Requirements for Climate-related Disclosures

8.1. Draft NZ CS 3

The ED of NZ CS 3 is available on our [website](#).

8.2. Draft NZ CS 3: Our process

In the March 2022 consultation document, we proposed a definition and supporting section on materiality. We received a significant number of comments on materiality, both in favour of the proposed definition, and opposed to it. We also received numerous suggestions for aligning the materiality approach and definition with other domestic and international laws and standards. The basis for conclusions on draft NZ CS 3 provides further detail on how this feedback influenced the materiality definition and section in the current ED.

The remainder of draft NZ CS 3 is being consulted on here for the first time. It has drawn heavily on existing material from other XRB standards and conceptual frameworks, as well as from international sources. The basis for conclusions on draft NZ CS 3 provides further detail.

8.3. Draft NZ CS 3: Guidance

For most CREs, we do not intend to provide separate staff guidance for draft NZ CS 3. We have deliberately written it to be comprehensive (e.g., including examples) so that it is able to be read as a standalone document. However, we recognise that some of the terms (e.g., enterprise value) are more difficult for MIS managers that are CREs only “in respect of the scheme” that they operate (see section 4.3). Therefore, the draft guidance for MIS managers includes some specific guidance for MIS managers relating to draft NZ CS 3.



PART THREE: **CONSULTATION** **QUESTIONS**



9.

Consultation questions

As noted earlier, Aotearoa New Zealand Climate Standards (draft NZ CS 1, draft NZ CS 2 and draft NZ CS 3) have been designed as a package and should be read together. The draft staff guidance is also designed to complement the standards by supporting CREs when making their disclosures and supporting consistent application of the disclosure requirements.

Accordingly, we are looking for feedback that is both specific to proposed disclosure requirements, and also reflects on the standards and the guidance as a suite of materials.

- 1) Do you think draft Aotearoa New Zealand Climate Standards will meet primary user needs?⁵
 - a) Do you think that the proposed disclosure requirements 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 draft Aotearoa New Zealand Climate Standards are clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?
 - c) Do you consider that draft Aotearoa New Zealand Climate Standards are comprehensive enough and achieve the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance? *Please consider your answer to question 5 when responding to this question.*
- 2) Do you have any views on the defined terms in draft Aotearoa New Zealand Climate Standards?
- 3) Do you have any practical concerns about the feasibility of preparing the required disclosures in draft Aotearoa New Zealand Climate Standards? *In responding to this question, please consider the proposed first-time adoption provisions in NZ CS 2 and your answer to question 4. Please also clearly explain what would make the specific disclosure unfeasible to disclose against either in the immediate term or the longer term.*
- 4) Do you agree with the proposed first-time adoption provisions in NZ CS 2? Why or why not?
 - a) Are any additional first-time adoption provisions required? If so, please provide specific details regarding the adoption provision and the disclosure requirement to which it would apply, and the period of time it would apply for.
- 5) Do you think the draft staff guidance documents will support CREs when making their disclosures and support consistent application of the disclosure requirements? Why or why not?
 - a) Do you think the guidance is under, adequately or overly specific and granular?
 - b) Do you consider that anything in the guidance should be elevated into the standard? Should anything be demoted from the standard into guidance?
- 6) Paragraphs 13 to 19 of draft NZ CS 3 are the proposed location of disclosures requirements. Paragraphs BC14 to BC20 of the basis for conclusions on draft NZ CS 3 explain the XRB Board's intent regarding these proposed requirements. Do you agree with the proposed location of disclosures requirements? Why or why not?

⁵ Primary users are defined in the proposed standard as: existing and potential investors, lenders and other creditors.



10.

Glossary

| | |
|-----------------------|--|
| CRE | Climate reporting entity |
| Draft IFRS S1 | Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information |
| Draft IFRS S2 | Draft IFRS S2 Climate-related Disclosures |
| Draft NZ CS 1 | Draft Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures |
| Draft NZ CS 2 | Draft Aotearoa New Zealand Climate Standard 2: First-time Adoption of Aotearoa New Zealand Climate Standards |
| Draft NZ CS 3 | Draft Aotearoa New Zealand Climate Standard 3: General Requirements for Climate-related Disclosures |
| GHG | Greenhouse gas |
| IFRS® | International Financial Reporting Standards |
| ISSB | International Sustainability Standards Board |
| MIS manager(s) | Manager(s) of registered managed investment scheme(s) |
| TCFD | Task Force on Climate-related Financial Disclosures |
| XRB | External Reporting Board |

