

29 October 2024

External Reporting Board
Te Kāwai Ārahi Pūrongo Mōwaho
Level 6/154 Featherston Street
WELLINGTON 6140

Via email: climate@xrb.govt.nz

SUBMISSION ON PROPOSED 2024 AMENDMENTS TO CLIMATE AND ASSURANCE STANDARDS

The Institute of Directors (IoD) appreciates the opportunity to comment on the proposed amendments to NZ CS 2 – Adoption of Aotearoa New Zealand Climate Standards (the Standards) and NZ SAE 1 – Assurance Engagements over Greenhouse Gas Emissions (GHG) Disclosure.

The IoD is proud to be the host of [Chapter Zero New Zealand](#), the national chapter of the Climate Governance Initiative. The mission of Chapter Zero NZ is to “mobilise, connect, educate and equip directors and boards to make climate-smart governance decisions, thereby creating long term value for both shareholders and stakeholders”.

We fully support the Government’s objectives to address climate change and the introduction of mandatory climate reporting requirements. These regulations are a vital step towards a sustainable future, and we are eager to ensure their successful implementation.

Many of our members are directors of climate reporting entities (CREs) that are directly affected by the climate-related disclosure (CRD) regime. Meeting the Standards has been a challenging process for many CREs, even those that had previously been voluntary reporters. The potential liability of the legislation has raised concerns for directors, given the new and evolving state of data and advice being given, and further advocacy is sought by the External Reporting Board (XRB) on this matter.

Given the tight timeframe of the consultation, we have not been able to canvass the opinions of all of our members, nor all CREs. While there has been widespread feedback in support of all of the proposals in general, we are cognisant that some of our members would prefer a two-year delay for some or all of these settings.

About the Institute of Directors

The Institute of Directors (IoD) is New Zealand’s pre-eminent organisation for directors and is at the heart of the governance community. We have over 10,500 members connected through our regional branch network and national headquarters. We believe in the power of governance to create a strong, fair and sustainable future for New Zealand.

Our role is to drive excellence and high standards in governance. We support and equip our members who lead a range of organisations from listed companies, large private organisations, state and public sector entities, small and medium enterprises, not-for-profit organisations and charities.

Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good governance.

Australian climate-related disclosure regime

As the first country to mandate climate-related disclosures, we have proudly led globally. Unfortunately, this has also resulted in directors, preparers, assurers and advisors alike experiencing a steep learning curve during the first year of the Standards. This is true even for those who had been voluntary reporters for a number of years.

Australia's Senate passed the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Cth) 22 August 2024 with the House of Representatives passing the Bill on 9 September.

While there are some core differences between the Australian and New Zealand regimes, reflecting significant market share and industry differences, there are some areas where alignment would benefit New Zealand reporters. Ultimately, Australia's regime will incorporate over 6,000 entities as opposed to New Zealand's roughly 200. It is likely that New Zealand subsidiaries of those Australian entities will be captured by the Australian regime creating a dual reporting obligation.

Some realignment, where relevant, with the Australian regime would support greater confidence for organisations working across both jurisdictions. It also provides directors, management, assurance providers and sustainability advisors the opportunity to strengthen and deepen their current reporting approach, expand the available data, and further build capability across all facets of the regime.

Challenges in measuring and reporting Scope 3 GHG emissions

[Research](#) undertaken by Deloitte for the Dutch Ministry of Infrastructure and Water Management, released earlier this year, identified five overarching challenges with regards to Scope 3 accounting. The five key categories of problems were:

1. **Poor data quality and availability:** Good quality primary data across value chains is often lacking, especially among smaller businesses.
2. **Evolving and inconsistent disclosure standards:** Understanding and keeping up with rapidly evolving standards requires expert knowledge, and even then, room for interpretation remains.
3. **Stakeholder engagement:** Obtaining Scope 3 emissions data requires cooperation from stakeholders across the value chain, which can be challenging due to a range of factors, including concerns about confidentiality and reputation.
4. **Resource constraints:** Many companies, particularly small and medium-sized enterprises (SMEs), find it challenging to process the large volume of data involved in Scope 3 emissions measurement and reporting with limited financial and human resources.
5. **Limited integration into business operations:** Scope 3 emissions are often not fully integrated into many businesses' operations and processes, slowing down emission data collection efforts and, thereby, the decarbonisation process.

These challenges also exist in New Zealand. For example, there is a resource constraint challenge due to the global shortage of assurance providers. According to the [Auditor-General](#), fewer people are studying accounting-related subjects in tertiary education, which means this shortage is likely to continue.

Proposal 1: Delaying mandatory scope 3 GHG emissions disclosure

Scope 3 GHG emissions are important to investors' understanding of transition risk. However, Scope 3 emissions can be notoriously hard to measure, track, and manage. They are also more complex and significantly less mature than Scope 1 and 2 measurements. According to the [UN Global Compact](#), on average, Scope 3 emissions account for 70 per cent of an organisation's total emissions, but can be as high as 99 per cent. Obtaining data from the value chain can be a significant challenge for many CREs.

Currently, data-gathering systems and controls are not in place to enable accurate disclosure in year 2 of the Standards. Extending the adoption provisions for Adoption Provision 4 (Scope 3 GHG emissions), Adoption Provision 5 (comparative information for Scope 3 GHG emissions), and Adoption Provision 7 (analysis of trends), will support CREs to engage with, and obtain information from, their supply chains.

CREs need high-quality emissions data to enable them to report with confidence. This year, 66 per cent of CREs used adoption relief for this disclosure. Extending the timeframe enables further maturing of Scope 3 emissions data and knowledge. There are different calculation methods for carbon emissions measurement, so extending the adoption provisions gives emitters the opportunity to review and enhance measurement and reporting methodologies leading to more credible, (third-party) verified, and comparable data.

A delay in mandatory scope 3 GHG emissions disclosure will enable CREs to establish both appropriate internal systems and work with their value chain to obtain reliable data on which to base their disclosure.

Proposal 2: Delaying mandatory scope 3 GHG emissions assurance

If mandatory reporting is delayed, then as a consequence, assurance similarly needs to be delayed (through the introduction of Adoption Provision 8 and amendment to paragraph 7A of SAE 1). It is acknowledged, however, that CREs may still disclose Scope 3 GHG emissions, while applying to use Adoption Provision 8. Further, as the processes for obtaining Scope 1 and 2 data are less complex and more mature than Scope 3 emissions data collection, it is noted that assurance of Scope 1 and 2 emissions would be retained.

This proposal supports the collection of accurate and reliable Scope 3 GHG emissions information for disclosure. Assurance of Scope 3 emissions is challenging, including obtaining verifiable, timely and reliable data from third-parties. As more jurisdictions undertake mandatory reporting including Scope 3 GHG emissions, it is anticipated that systems and methodologies to capture and report will become more readily available.

Further, as noted above, there is an ongoing challenge with the global shortage of assurance providers.

Proposal 3: Delaying anticipated financial impact disclosure

Extending Adoption Provision 2 (anticipated financial impacts) will benefit from more jurisdictions undertaking mandatory reporting. This year, 90 per cent of CREs used adoption relief for this disclosure, highlighting the concerns around data quality and the need for guidance. For the CREs that did include financial impacts this year, the range in detail reported was significant.

As a global leader in climate-related disclosures, New Zealand CREs have not had the benefit of national and international best practice to guide their journey. In addition, due to the paucity of reliable data, more maturity is required before CREs will have confidence in their ability to produce accurate and comparable

future forecasts of financial performance that meet the needs of their primary users. Additional time will support CREs to obtain more (reliable) information and for further guidance to be issued (by the XRB).

Proposal 4: Delaying transition planning disclosure

The IoD has been working with the XRB to produce a [transition planning guide for directors](#), which was released on 11 October 2024. The guide aims to support directors in their role to embed transition planning throughout their strategic plans and to consider how their business model needs to transform to succeed in a climate-changed world. We recognise that directors are only one group in this exercise, but are aware that further transition planning guidance is currently being prepared to support other key players.

We acknowledge that transition planning is a multi-faceted exercise that requires boards and organisations to think differently about their future, supported by scenario planning.

This year, 82 per cent of CREs have used adoption relief for this disclosure. However, they were still required to disclose what they have been doing to prepare for transition planning. While transition planning has the potential to be a high-value process, it requires good underlying information. Inevitably there will be short- to mid-term trade-offs that CREs need to grapple with.

Conclusion

Various assessments of disclosures from the first reporting period under the Standards have identified areas where the disclosures can be enhanced. On 21 October 2024 we released, in conjunction with KPMG, [Lessons from the front line](#), a new resource designed to provide directors with guidance to support reporting. The guidance also highlights areas of concern for directors, which echoes the strong feedback we have been receiving from CREs and the need for more time to be efficient in the delivery of this growing suit of information, including nature-based data and disclosures.

In the resource we acknowledge there is significant preparatory work that needs to be done. More needs to be done to ensure CREs can confidently report on financial impacts, Scope 3 GHG emissions and transition planning. We support the XRB's intention that, by allowing further time through Adoption Provisions, CREs can get started now on these challenging areas of disclosure so that they are better prepared for when they are a mandatory part of the reporting regime. We see this as a critical element of the proposals – allowing critical preparatory time for directors and management that felt ill-prepared after the first round of reporting. It is worth noting that internationally, disclosure requirements are becoming a moving feast and, as in New Zealand, the initial period has been valuable in identifying some of the challenges as well as solutions.

Global standards for climate reporting such as the IFRS Sustainability Disclosure Standards and Australia's climate-related disclosures have come into force since New Zealand adopted the Standards. As a result, many New Zealand companies must align with global standards to access markets. Greater timing alignment with the Australian reporting regime would support more confidence for organisations working across both jurisdictions. Alignment would also provide directors, management, assurance providers and sustainability advisors with opportunities to strengthen and deepen their capability and current reporting approach.

Unfortunately, while outside of the scope of this consultation, the liability burden that the current climate reporting requirements are placing on directors will continue to exert undue influence with due diligence processes that far exceed those for financial reporting, particularly in terms of market disclosures.

In New Zealand, directors (and management involved in the preparation of disclosure reports) face deemed liability for breaches of Part 7A of the Financial Markets Conducts Act 2013 (FMCA) in relation to CRD, including if the CRD is in breach of the climate standards by no fault of the director. In Australia there is no deemed liability for directors but merely a general obligation to take reasonable steps to ensure compliance. Further, their regime also provides for several targeted immunities for CREs, directors and employees.

For the reasons outlined in our response to the various consultation points above, additional relief is welcomed. However, the XRB need to remain responsive to new and ongoing challenges.

Compliance and reporting in itself is not the end goal. Rather, it is about communicating with stakeholders, identifying the risks and opportunities, maintaining a locally and globally competitive market position, and transforming businesses for a climate-changed future. Our overarching concern is that the reporting regime and Standards must incentivise the right behaviours, including, most importantly, climate action.

Ngā mihi nui

A handwritten signature in black ink, appearing to read 'KRPatt', is positioned above the printed name.

Kirsten (KP) Patterson

Chief Executive
Institute of Directors