Submission on *Climate-related Disclosures*

Organisation

Organisation	Institute of Finance Professionals New Zealand Inc (INFINZ)

Responses to discussion document questions

Introduction

INFINZ is pleased to submit its comments on the draft sections on Strategy, Metrics and Targets as part of the new NZ CS 1 standards.

We commend the XRB on its continued effort in developing these innovative standards in such a short time frame. We urge the XRB to reconsider some of the extensive flexibility given to CREs in deciding which parts of the standard to disclose, as anything they deem immaterial could be avoided. We also disagree with the use of only single materiality, as this makes the disclosures a lot less useful for many end-users and the choice to not be prescriptive in the higher temperature scenario and on industry specific metrics. We elaborate more on these in the responses to the specific questions below.

Finally, we recommend disclosure of the materiality threshold being applied – such as what is currently being used in the Independent Audit Opinions.

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

a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

Yes, with some changes as mentioned below.

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

Yes, subject to comments on materiality below

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?

Yes, although prescriptiveness on the scenarios used needs to increase slightly, as mentioned in our response to question 3.

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

	Yes, it is, in order to understand the context of the reported climate risk and opportunities as well as the actual and potential impact.
3	**Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a 'greater than 2°C scenario'? Why or why not?**
	We agree that there should be some flexibility for CRE's to report on many possible future scenarios, as is appropriate for the entity and sector in which they operate. However, in line with the goal of the standards "…provides for comparable and consistent information" (page 11), we suggest prescribing a minimum of two scenarios. One is 1.5°C with the other being a 3°C scenario, representing the best case and conservative case, respectively. End users need comparability beyond just these the best case, that is the 1.5°C scenario, and having both will be extremely useful. Any voluntary scenarios disclosed on top of this are also useful, but likely not to be comparable or consistent across sectors.
4	**We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?**
	Again, for the sake of comparable and consistent information, the transition plans should be tied to a minimum of the two scenarios mentioned in our response to question 3. If disclosed transition plans are reflect different future pathway contexts, it will be extremely hard to compare entities and make judgements on the quality of the plans. Given the New Zealand's Government's commitment to achieve Net Zero by 2050, we would also support the inclusion of this as a dedicated scenario.
5	**Do you have any views on the defined terms as they are currently proposed?**
	No, the terms are well defined.
6	**The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:**
	a) Do you agree with the proposed first-time adoption provisions? Why or why not? In principle we agree with the provisions, although we would note that some of the proposed Disclosure Requirements could be brough forward, particularly the Adoption plans which we would argue should be in place from the second climate statement onwards. **b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.** No, as above we propose less provisions.

	c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim? N/A.
7	**Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?**
	Yes. **a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.** Very much so, the standard is ambitious and will help drive the changes the New Zealand Economy is needing to meet New Zealand's Climate Change goals. These metrics and targets will give end users the transparency they currently lack when evaluating a CRE's climate risk and opportunity exposure. **b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?** Yes, although we would note that the proposed standard specifies location-based Scope 2 reporting, but not what to use for target setting. We would argue this is contrary to SBTi and TCFD. **c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance?** Mostly yes, however we encourage the XRB to reconsider some of the decisions made, as discussed below.
8	**We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?**
	We believe the standard should include a minimum of industry-specific metrics CREs need to disclose and require them to disclose any additional metrics, which are material to its climate change risks and opportunities. The reasoning for not requiring this, as quoted, described on page 38, "… having to report metrics that are not used for management purposes.", should be reconsidered. Encouraging CREs to start using these metrics for management purposes could help entities (and report users) understand the risks better and support a faster transition that would fulfil the purpose of the standard.
9	**We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?**

	There are many barriers to measuring Scope 3 value chain emissions, but part of removing these barriers will be CREs attempting to measure them. This will drive increased reporting of emissions by entities across the value chain and improve the impact of CS1.
10	**Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?**
	No.
11	**Do you have any views on the defined terms as they are currently proposed?**
	No, they seem well defined, although we would note definition on what XRB sees as a science-based target would be useful.
12	**The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?**
	The XRB has embedded an adoption provision in section 7.3, from the provision in section 5.4 by not requiring comparative information to be disclosed. For end users this would decrease the usability of disclosures.
13	**The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?**
	We agree in principal, however the undefined period for this bar to be raised is concerning. We suggest that that this limited assurance requirement is a provision for the first year, so that CREs and end users know that this will change to reasonable assurance for the second required climate reporting period. We would also encourage the XRB to continue to publish further guidance and case studies to help guide CRE's on the requirements to meet reasonable or limited Assurance levels. We would also recommend Explanatory Guidance around Limited Assurance being given as this is not a term most users, those charged with Governance and preparers would be familiar with.
14	**The XRB has proposed a definition of material (Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term). Do you agree with this definition? Why or why not?**
	It is unclear from the consultation paper whether using the reference of an 'entity's enterprise value' is intended to be a departure from, or a re-definition of, the general test

for materiality in financial statements. The general test of materiality was clarified in the IASB's Definition of Material (Amendments to IAS 1 and IAS 8) 31 Oct 2018, coming into general effect for periods on or after 1 January 2020. The IAS states

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

This definition is followed through in NZ IAS 1 .

The proposed use in CS 1 of the concept of 'assessment of an entity's enterprise value' into the definition of 'material' appears to be taken from the recommendations of the TRWG to the ISSB , and is stated in the CP as aligning with the TCFD framework (see page 9.3.1 of the CP.)

However the TRWG 's recommendation on this aspect does not include any discussion as to the extent to which this may be a departure from the general definition of material ' in IAS1, or the implications of using that terminology.

It is recommended that further consideration be given to this aspect and, in particular, why the general test of materiality in IAS 1 and NZ IAS1 should not be used and applied. Having different tests without clear justification and explanation as to the implications will cause uncertainty and result in unnecessary costs.

It is significant that the TCFD itself, both in its original 2017 Recommendations (page 33) and in its 2021 Annex (page 8) considered that organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their annual financial filings.

More generally, the issue of materiality can be considered in the context of purpose, for example, the SEC's focus on materiality 'when making an investment or voting decisions' compared to the broader IFRS test. Interestingly, some of the earlier IFRS material itself refers to making materiality judgements in the context of " primary users" making decisions about providing resources to the entity; whereas the climate change disclosure regime is as much about moving to disclosure for broader public interest purposes. This itself is likely to warrant further attention .

Meanwhile, for the purpose of the proposed CS 1, we recommend that further consideration be given to the definition's reference to an assessment of an entity's enterprise value, and why the general test of materiality in IAS 1 and NZ IAS1 should not be used and applied.

Single and double materiality

We agree with this being a 'single' materiality definition at the outset . However, while recognising that a double materiality objective is aspirational, we encourage the XRB to set a timeline for when double materiality could become the standard. There are a significant number of financial sector organisations in New Zealand and internationally with a business purpose that goes beyond simply maximising profit. For them, the impacts of the companies they invest in is a crucial component of their overall business purpose.

Double materiality is also crucial for other end users, who are concerned with the impacts of entities on the planet, for example retail investors. In a recent survey, MindfulMoney and the Responsible Investment Association of Australasia, showed that 73% of retail investors wants their funds invested ethically and 62% say it is important that their investments make a positive difference in the world. The world of responsible investing is fraught with transparency issues and lack of standardized data, the Climate-related disclosures are meant to help alleviate this issue, but without double materiality, the information end users need will still be quite opaque. For fund managers, who are trying to align their strategies to their clients values in order to provide an ethical or sustainable product, need to have the information from investee entities that reflects double materiality. For end users of these funds, they are very likely to need double materiality standards in order to access which fund aligns best with their values. Clients and investors of fund managers, in New Zealand, are shown to be motivated by their values, as they are willing to sacrifice returns to achieve more sustainable outcomes (Diaz-Rainey et al., 2022), whereas fund managers are predominantly driven by to integrate ESG investing practices financial performance and attracting clients (Lachie et al. 2022).

This 'single materiality' approach is also lagging internationally, while the original emphasis of regulating Climate-related disclosures was meant to be world leading. For example, the EU's Guidance on corporate disclosure of climate related information states that it is: "Guidance for companies on how to report on the impacts of their business on the climate and on the impacts of climate change on their business."

The arguments presented for the materiality definition better resemble arguments for having a period of provision, so that entities can build the capabilities for the more demanding nature of the standard under a double materiality definition. For end user's double materiality is extremely important.

References:

McLean, L., Diaz-Rainey, I., Gehricke, S., and Renzhu Zhang (2022). In Holdings We Trust: Uncovering the ESG Fund Lemons. *Available at SSRN*.

Diaz-Rainey, I., Robert, H., Zhang, R. and Barry Coates (2022). "'100% Pure'? Households' preferences and attitudes with respect to Socially Responsible Investing. Presentation available at SSRN forthcoming.

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

Beyond the comment on double materiality made above, we also believe that letting CREs avoid certain requirements of the standard, if they deem this item not to be material, leaves an opening for greenwashing. At the least entities should have to disclose their reasoning and supporting evidence for deeming omitted requirements as 'immaterial' to end users.

We also recommend the contextual disclosure of the materiality threshold being applied – such as what is currently being used in the Independent Audit Opinions.

Other comments

1. On Page 14 the consultation document states "For example, the European commission is making substantial progress in developing draft European sustainability reporting standards". In fact some of the policies for reporting are already in place (e.g. SFDR, but delayed) and some are in place, but being updated to suit smaller entities. It may be prudent to review EU policies again before making such statements and exploring the challenges they are facing in implementation.
2. The comparison tables are very useful, but further comparisons to the EU standards, as the most ambitious currently being drafted, would provide a lot of insight on the standing of New Zealand's standards internationally.

3. As a separate workstream but related to the implementation of the new standards we would encourage the XRB to actively monitor, review and report against the implementation of the new standards and the impact and change to CRE's financial and climate performance. This will ensure that the standards are and remain fit for purpose and that any required changes can be made with a strong fact base.
4. We would encourage the XRB to more strongly outline the implications for CRE's if they fail to meet the required reporting standards and how this will impact audit opinions and their businesses. The carrot for doing good is already in place, through consumer and investor demand, but the stick for non-disclosure, inadequate disclosure and misleading disclosure also needs to be in place if the whole economy is to transition.
5. To reduce the compliance costs of this initiative, we would encourage more extensive application guidance wherever possible.