



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

NZX Limited
Level 1, NZX Centre
11 Cable Street
Wellington 6140
New Zealand

www.nzx.com

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External Reporting Board
PO Box 11250,
Manners St Central,
Wellington 6142,
New Zealand

By email: climate@xrb.govt.nz

NZX Submission on the External Reporting Board Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures: Strategy, and Metrics and Targets Consultation Document

Background

1. NZX Limited (**NZX**) submits this response to the External Reporting Board (**XRB**) Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures: Strategy, and Metrics and Targets (**CS1**) Consultation Document, March 2022 (**Consultation Document**).
2. We thank the XRB for the opportunity to make this submission. We look forward to contributing towards the XRB's ongoing development of a climate standard reporting framework for New Zealand.
3. NZX is supportive of the continued development of a mandatory climate-related reporting framework under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. NZX considers that the development of this framework will deliver competitive advantages for New Zealand entities as well as broader environmental benefits, that will assist in creating a market environment to support sustainable environmental wellbeing in the long term, and enhance sustainability and resilience for New Zealand businesses. We consider that climate-related reporting has become a key driving force in a global movement towards creating more environmental accountability and awareness for financial reporting entities¹.
4. Nothing in this submission is confidential.

¹ 'Reporting climate risk: Connecting you to today's corporate reporting challenges', Deloitte Accounting Alert June 2021 available [here](#) (refer to pages 2 and 7 on accountability and global developments towards climate-related disclosures).

Response to consultation

5. NZX shares the XRB's view that the climate-related disclosure standards under the Act should be developed in a manner that enables them to be consistent with developing international standards. These standards should be flexible enough to enable climate reporting entities across different market sectors, who are differentially affected by climate related issues, to incrementally comply with the requirements. We therefore support the introduction of CS1 and the XRB's intention to develop climate reporting standards in line with the recommendations from the Task Force on Climate-related Financial Disclosures (**TCFD**).
6. We endorse the XRB's approach to providing first time adoption relief in relation to certain disclosures within CS 1, which recognises the significant effort that will be required from many first-time adopters to become familiar with the requirements and report under the new framework.
7. NZX supports the inclusion within the proposed CS1 of a clear outline of the purpose and rationale for climate related disclosures, which provides a useful foundation for first time adopters. The inclusion of the key principles that a reporting entity needs to consider is useful while the additional reporting standards (including NZ CS 3) are being developed. We understand that the disclosures required by CS1 are to be interpreted subject to the definition of materiality that is to be included in NZ CS 3. We consider that it would be helpful for the disclosure requirements contained in CS 1 to more clearly reference the materiality threshold that applies to the interpretation of the requirements, including in the disclosure objectives of the various aspects of the standard. In this regard we suggest that the explanatory paragraphs included in the proposed standard refer to the level of detail required, as that which is *reasonably* necessary to satisfy the relevant disclosure objective.
8. As a general comment, we note that the Consultation Document, helpfully refers to existing reporting frameworks, requirements and guidance. We consider that it would be helpful (particularly for first time adopters) if a navigation guide of relevant reference material could be made available, that links the information to the relevant disclosure obligation. We suggest that perhaps flowcharts and diagrams, similar to Figure 4 and Figure 5, may be helpful for reporting entities to consider the entirety of available documentation which is currently available. Additionally, further guidance on the explanatory paragraphs of the strategy and metrics sections of CS 1 would help to improve the XRB's expectations in relation to these disclosure requirements. This will aid reporting entities who lack climate reporting experience or resources towards better understanding reporting metrics, ultimately improving the standard of climate reporting for first-time adopters.
9. As you are aware, NZX has a number of foreign exempt issuers, whose home exchange is its primary regulator. We understand that the FMA is developing appropriate class exemptions in relation to these issuers, to enable them to comply with the requirements of their primary jurisdiction rather than the New Zealand legislative requirements. On this basis we understand that no specific relief has been embedded in CS1.

Strategy

10. The Consultation Document includes key definitions which will be relied upon by reporting entities. We propose that the terminology should be unambiguous and consistent with international standards where possible. The Consultation Document refers to “plausible” future climate events under the definition of a “climate-related scenario” and a “scenario analysis”. We presume and endorse a view that the concept of ‘plausibility’ connotes a future climate event that is “reasonable” rather than “possible”. We note that the IFRS Foundation’s Technical Readiness Working Group (**TRWG**) uses the term “anticipated” instead of “potential”, and we query whether XRB is intending to intentionally broaden the reporting requirements in this area? We would support a narrower view whereby reporting entities are not required to consider all possible climate events, as we consider that the relevance of CS1 disclosures is to provide primary users with the benefit of information relating to climate events which may reasonably affect a reporting entity.

Metrics and Targets

11. Within the proposed metrics and targets section of the Consultation Document, the XRB has identified their omission of industry-specific metrics. While existing industry-specific metrics determined by the TCFD which have been annexed to the Consultation Document are helpful, we encourage the XRB or the Government to prescribe New Zealand-based industry-specific metrics. Given New Zealand is the first country to mandate climate reporting, we believe that our reporting standards would benefit from more nationally targeted standards prescribed by either the XRB or the Government for industry. Clear industry-specific metrics and sector-level adaptation plan guidance will ease adoption as reporting entities will understand the information expected of their climate statements. Industry-specific metrics will also enable comparability of entities in different sectors, providing investors with the necessary information to compare entities across different sectors.
12. NZX considers that the reporting of scope 3 value chain emissions may be challenging for some climate reporting entities, given the lack of comparative data currently available. NZX supports the XRB’s view that requiring reasonable as opposed to limited assurance of this information would be appropriate given the lack of certainty in relation to these disclosures.
13. NZX supports the XRB’s definition of materiality through the lens of enterprise value (rather than double-materiality), which will in conjunction with first-time adoption standards, provide appropriate recognition of the effort that will be involved for many climate reporting entities in complying with the incoming regime.

Closing comments

14. NZX wishes to again acknowledge the efforts of the XRB towards conceptualising and designing the settings of New Zealand’s climate-related disclosure framework. We support the direction that the XRB has decided to take with these standards and commend the XRB’s efforts to create a standard which will be internationally comparable. NZX thanks the XRB for this opportunity to submit on this consultation and look forward to discussing and providing feedback on upcoming consultations.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kristin Brandon', with a stylized, cursive script.

Kristin Brandon
Head of Policy and Regulatory Affairs
NZX Limited