New Zealand climate-related disclosure framework

March 2023

Introduction

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Act) establishes a climate-related disclosure framework for New Zealand and makes climate-related disclosures mandatory for climate reporting entities (CRE).

In December 2022, the XRB issued its Aotearoa New Zealand Climate Standards (NZ CS or Standards). CREs are required to make climate-related disclosures in their annual reports for accounting periods commencing on or after 1 January 2023. The XRB intends to issue final guidance documents in early 2023.

This publication provides an overview of the NZ CSs, highlighting the structure of the XRB's framework, disclosure requirements and timeline for application.

Scope – Who is captured by the Act

New Zealand has introduced a mandatory climate-related disclosure regime for CREs. The regime captures the following entities as CREs:

- Listed issuers with a total market value of equity securities or total face value of quoted debt securities exceeding $60 million
- Registered banks, credit unions and building societies with total assets exceeding $1 billion
- Licensed insurers with total assets exceeding $1 billion or annual gross premium revenue exceeding $250 million
- Managers of registered investment schemes with total assets under management exceeding $1 billion
- Specified Crown Financial Institutions by Enduring Letter of Expectations from the Minister of Finance and Minister of ACC with greater than $1 billion in total assets under management

Listed issuers that have securities quoted only on growth markets or no quoted securities are excluded from the CRE definition. Large, privately held organisations are not included based on the criteria outlined above.

Overseas incorporated organisations are required to make disclosures if their New Zealand business meets the requirements outlined above.

A CRE is required to

- Keep proper records relating to their obligations to make climate-related disclosures
- Prepare climate statements as at the balance date, that comply with the climate-related disclosure framework
- Lodge its climate statement with the Registrar of Financial Service Providers

Climate statements or group climate statements (referred to as climate statements in this document) must be prepared within four months of an entity's balance date. A CRE that is required to prepare an annual report must include, in its annual report,

- A statement that the entity is a CRE
- A copy of its climate statement, or a link to the website where a copy of the climate statement can be accessed

The Act establishes a number of offences that may be committed. For example, a CRE, and every director of the entity, commits an offence if the entity or the director knowingly fails to comply with an applicable climate standard. An individual is liable on conviction to imprisonments for up to five years, a fine of up to $500,000, or both. Any entity can be fined on conviction up to $2.5 million.

Key impact

Large listed entities, banks, insurers and managers of registered investments schemes will be captured by the new disclosures. CREs are required to prepare climate statements for reporting periods beginning on or after 1 January 2023.

A copy of an entity's climate statement, or link to website where it can be accessed, must be provided in its annual report.

The climate-related disclosure framework

The XRB has issued the following Standards as part of its climate-related disclosure framework

- Aotearoa New Zealand Climate Standard (NZ CS) 1: *Climate-related Disclosures* (NZ CS 1)
- NZ CS 2: *Adoption of Aotearoa New Zealand Climate Standards* (NZ CS 2)
- NZ CS 3: *General Requirements for Climate-related Disclosures* (NZ CS 3)

NZ CS 1 consists of four sections: Governance, Strategy, Risk Management, and Metrics and Targets based on the TCFD's recommendations. Each section requires specific disclosures and are discussed further below.

NZ CS 2 provides entities with a limited number of exemptions on first-time adoption. It provides first-time adoption provisions for some disclosures required under the Strategy and Metrics and Targets sections. It also provides exemptions from providing comparative information and an analysis of trends. If a CRE elects to use any of the transitional provisions, it must include a description of those used in its statement of compliance with the climate standards.

NZ CS 3 establishes general requirements for entities to follow when making disclosures under Aotearoa New Zealand Climate Standards. It provides a set of information principles and presentation principles to achieve fair presentation. It also includes materiality considerations and the disclosure requirements for comparatives, methodologies, assumptions and estimation uncertainty.

Materiality is one of the key sections in NZ CS 3. An entity must disclose all material information about its climate-related risks and opportunities. Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of the entities climate related disclosures. An entity should consider the requirements in NZ CS 1 and its primary users' information needs to identify information it needs to disclose.

Guidance documents

As part of the Exposure Drafts (EDs) prior to issuing the final Standards, the XRB issued the following staff guidance:

- Draft NZ CS 1: Guidance for all sectors – providing general application guidance for all sectors
- Draft Guidance for MIS Managers – providing specific guidance for managers of registered managed investment schemes

The guidance is non-mandatory. These documents are in draft format and will be issued and updated over time. The final Guidance Documents are expected to be issued in early 2023. It is expected the XRB will add to this guidance for other industries as practice evolves.

NZ CS 1 – Specific disclosures

NZ CS 1 includes specific disclosures, including, at a high level:

- Governance – disclosure of the governance body responsible for climate-related risks and opportunities and its oversight. Disclosure is also required of managements role in assessing and managing climate-related risks and opportunities.
- Strategy – disclosure of climate-related impacts, scenario analysis undertaken and the climate-related risks and opportunities identified in the short, medium and long term and their impact. Disclosure is also required of how a CRE will transition towards a low-emissions, climate-resilient future state.
- Risk Management – information around transition risks and physical risks including processes for identifying, assessing and managing that risk and how they are integrated into the CRE's overall risk management processes.
- Metrics and Targets – cross-industry metrics for greenhouse gas (GHG) emissions for scope 1, 2 and 3 emissions which are relevant to the entity regardless of the industry. Disclosure is also required of industry-based metrics relevant to the CRE and any other performance indicators and targets used to measure and manage climate-related risks and opportunities.

The Strategy section of NZ CS 1 requires disclosure of a CRE's scenario analysis undertaken to help identify its climate related risks and opportunities. This includes three scenarios, at a minimum. Specifically, a 1.5 degrees Celsius climate-related scenario, a 3 degrees Celsius or greater climate-related scenario, and a third climate-related scenario.

An entity can use the six-step approach set out in XRB staff guidance for all sectors to start their scenario analysis. The Task Force on Climate-related Financial

Disclosures (TCFD) also provides guidance on employing scenario analysis in strategic management[1].

XRB staff recommend that an entity takes a relatively high-level approach in their first year of scenario analysis, touching on a broad range of different aspects of physical and transition risk and opportunity, to provide an overview of the climate-related risks and opportunity landscape, from which more detailed work can be planned. In subsequent years, an entity might then undertake a narrower, deeper dive into climate-related factors of greatest importance to the resilience of their business model and strategy, conducing a more thorough analysis of specific categories of physical or transition risk or opportunity.

Assurance

NZ CS 1 requires CREs to ensure that climate statements that disclose GHG emissions are the subject of an assurance engagement. NZ CS 1 requires assurance for reporting periods ending on or after 27 October 2024 (likely to be an entity's second climate statement).

The intended scope of the assurance engagement includes:

- Scope 1, 2 and 3 GHG emissions
- Additional requirements for the disclosure of GHG emissions under NZ CS 1 which include (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, (c) a summary of specific exclusions of sources, facilities and/or operations with a justification for their exclusion, and (d)
- The disclosure requirements of GHG emissions methodologies, assumptions and estimation uncertainty under NZ CS 3

Assurance engagements can be either 'reasonable' or 'limited' assurance. NZ CS 1 proposes limited assurance. Entities may choose to obtain reasonable assurance over some of all of their GHG emissions disclosures and voluntarily obtain assurance over other disclosures beyond GHG emissions.

Timeline

The XRB issued the final Standards in December 2022, with an effective date of 1 January 2023. The final Guidance Documents are expected to be issued in early 2023.

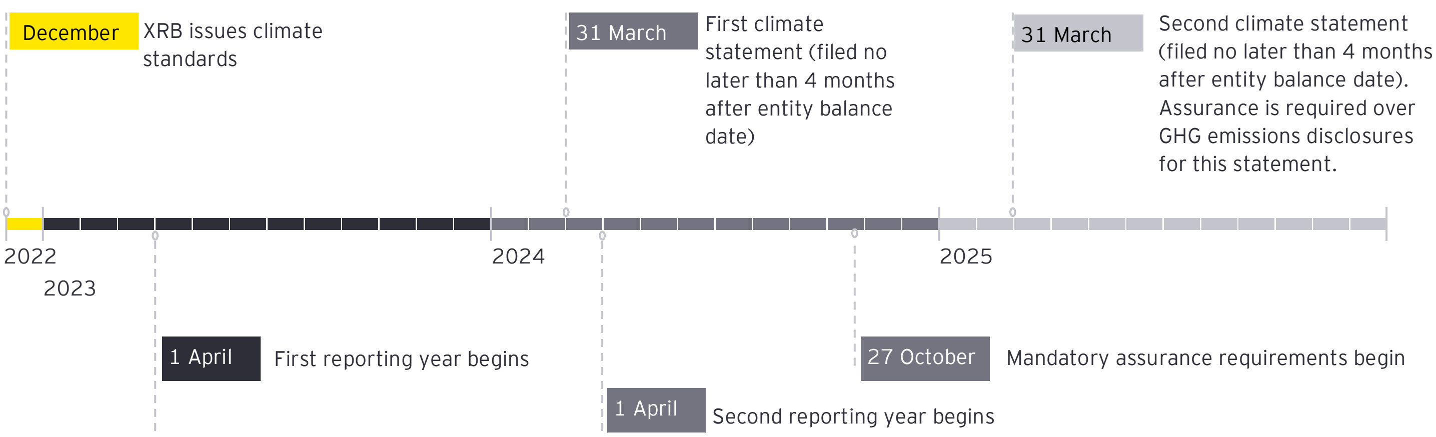
Key impact

- Climate reporting entities will be required to disclose climate statements in respect of accounting periods of the entity that commence on or after 1 January 2023.
- Climate reporting entities will be required to get GHG emissions disclosures assured for any accounting period (including open accounting periods) that end on or after 27 October 2024.

International Sustainability Standards Board

The International Sustainability Standards Board (ISSB) has also been active in its program to produce climate-related disclosure standards. In March 2022, it issued two exposure drafts on general requirements and specific climate-related disclosures (Exposure Drafts IFRS S1 General Sustainability-related Disclosures and IFRS S2 Climate-related Disclosures). The ISSB has committed to finalising S1 and S2 by 30 June 2023, with an effective date of 1 January 2024. Both the XRB and the ISSB have used the TCFD framework for developing climate-related disclosures. The XRB has issued an alignment document comparing the EDs to the ISSB's exposure drafts. There is reasonable alignment although some disclosures do differ.

Figure 1: Example timeline for an entity with a 31 March balance sheet



[1] TCFD Guidance on Scenario Analysis for Non-Financial Companies 2020 issued in October 2020

Next steps

Climate-related disclosure is not just about transparency. It is about transformation. The following recommendations suggest how entities can navigate and prepare for the requirements.

1. Don't wait until climate standards become effective

Climate reporting is mandated in New Zealand. NZ CS1 significantly increases the requirements on mandatory disclosures beyond current leading practice. Entities need to take this opportunity to progress current climate-related work, in order to prepare themselves for the step up in disclosure requirements from next year.

To begin, entities need to consider how climate change fits into their governance, strategy and risk management functions, and should start scenario analysis in advance of the standard becoming effective. Once key climate-related risks and opportunities are identified, measurement and reporting processes need to be implemented to disclosure on these.

2. Put climate reporting on the board's agenda

Board oversight of an entity's climate reporting is critical for establishing and maintaining good governance, policies and controls over the climate-related process. An entity will need to:

- Incorporate or make available relevant experience and expertise at the board level
- Clearly define climate-related roles and responsibilities of the board and/or its other committees
- Make sure there is board oversight of most climate-related matters
- Develop climate-related policies and implement regular monitoring of climate-related performance

Boards will need to be across the requirements of the XRB's climate standards and how the FMA will monitor and enforce the framework. In addition, Boards will need to oversee a materiality assessment and gain comfort over how climate change is integrated into current risk management processes.

3. Seek assurance to build trust in climate reporting

To build trust in the depth and reliability of climate-related disclosures, entities should ensure that their climate reporting has robust processes and controls with a supporting audit trail. This should ideally be done before mandatory assurance requirements are instigated to identify and resolve any significant measurement, control and reporting issues.

The Standards requires limited assurance over GHG emissions. This can be provided by either their statutory auditor or an independent assurance service provider. Entities should focus on audit preparedness as a means of building stakeholder confidence and complying with regulatory obligations.

Ministry of Business, Innovation and Employment (MBIE) and Ministry for the Environment (MfE) issued a consultation document (CD) in November 2022 that considers assurance requirements in the climate-related disclosures regime, specifically:

- Whether they should introduce an occupational licensing regime for the individuals assuring the climate statements.
- Whether they should extend the scope of the assurance requirement from the current obligation to assure greenhouse gas emissions disclosures only, to assurance over all disclosures in the climate statement.

Entities should prepare for the possibility of assurance requirements to extend to all disclosures in the climate statement.

To discuss further, please contact your local EY Advisor.

EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

EYSCORE 003313-23-AUNZ

ED None

ey.com