

Submission on Aotearoa New Zealand Climate Standard Exposure Drafts: Climate-related Disclosures

The Institute of Directors (IoD) appreciates the opportunity to comment on the External Reporting Board's (XRB's) three exposure drafts (CS1, CS2 and CS3) and supporting material.

Key points:

The key points of our submission are:

- We continue to **support the XRB in their development of the climate-related disclosure standards**. It is important that the regime enables effective, meaningful reporting that helps drive strategic thinking and change. The Strategy and Metrics and Targets sections of the standard will provide climate reporting entities (CRE's) with a greater understanding of the implications of climate change on their organisations, and will also assist boards in the wider governance considerations relating to the strategy, purpose and risk management of their organisations.
- We **welcome XRB's exposure drafts reflecting that some entities can only initially disclose a limited understanding of the impacts of climate change and staging the implementation**. While many CRE's have already developed reporting frameworks, some are only just beginning. We support the pragmatism in the exposure drafts, notably in relation to the disclosure of scope 3 emissions and the extent of assurance (using limited assurance). We also note that directors can support their capability in this area by accessing resources through [Chapter Zero New Zealand](#) and training through the Institute of Directors.
- **While supporting the disclosures, it is important that the XRB and Financial Markets Authority continue to consider the extent and nature of the disclosures to ensure the costs of the disclosures are consistent with the benefits delivered from them**. The disclosures need to be seen in the context of other reporting requirements, notably financial reporting, as well as New Zealand Stock Exchange (NZX) reporting requirements for listed entities. This is particularly important when new reporting requirements are developed.

About the Institute of Directors

The IoD has over 10,000 members, is New Zealand's pre-eminent organisation for directors and is at the heart of the governance community. 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. Given the size, diversity and spread of our membership many of our members' and the organisations they govern will be directly affected by the introduction of climate-related disclosures and many more will be impacted in the future. Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good governance.

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 New Zealand 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".

Role of directors and boards on climate-related issues

The IoD has identified climate change as one of our Top Five Issues for Directors each year since 2018. Directors clearly see climate action as a key leadership theme, which is evidenced by director member feedback in a range of surveys, including our annual *Director Sentiment Survey*. With this focus, boards have a very real opportunity to be a powerful force in taking action on climate-related issues and reducing the environmental impact of their organisations. Climate-related disclosures support that direction.

Comments on XRB's exposure drafts

Governance – directors and boards – have a critical role leading their companies (and other organisations) in reducing emissions and adapting to the impacts of climate change over time. Setting a strategic direction, built on a clear purpose, ensuring boards have appropriate capability and culture, ensuring management accountability for performance and addressing risk and other statutory requirements are [the Four Pillars of Governance Best Practice](#).

The exposure drafts ensure that climate-related issues and the associated disclosures are integrated into these key elements of governance, rather than being stand alone.

Approach has been strengthened by response to consultation

We made submissions on the previous two rounds of consultation:

- Consultation Round 1: [Submission on Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures](#).
- Consultation Round 2: [Submission on Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures \(Strategy and Metrics and Targets\)](#).

We are pleased that our and others' suggestion for change have been addressed and changes reflected in the exposure drafts.

We see these standards as leading the way towards more consistent reporting and address some of the critiques of non-financial reporting, including on environmental performance, that we have recently commented on, including in a recent article, "[Growing demand for "ethical" investments not being matched by quality information \(yet\)](#)" which commented on the FMA's recent review of disclosures on integrated financial products.

A further and wider outcome of the proposed standard is the potential for these disclosures:

- to give greater insight into the more general governance practices of New Zealand's largest companies and financial institutions.
- to help the boards of suppliers and customers of the 200 climate reporting entities, as well as other boards, consider their governance as it relates to climate change and, potentially, governance practice generally.

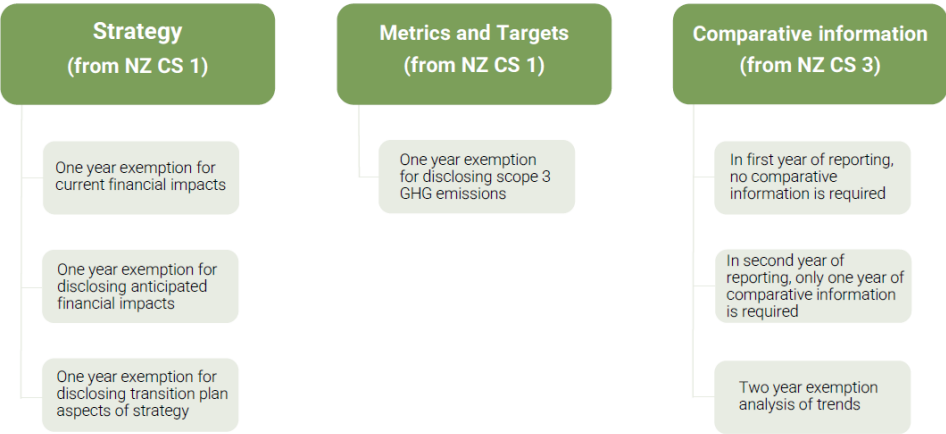
Pragmatic and principled approach adopted

We welcome changes made to better stage the implementation of the proposed disclosure standards.

We are pleased that the XRB has listened to and acted on the submissions on earlier proposals made by IoD and other key players. As outlined in the diagram below the primary changes made ensure a more realistic timeframe for implementation, for example:

- reporting scope 3 emissions which has positive implications for suppliers and customers of these large companies who will be asked to supply their emissions data)
- an initial approach that only requires “limited assurance” for the climate-related information disclosed. This means that the standard of the assurance is a step below the full assurance that accompanies financial statements, for example. This is realistic and sensible in the shorter-term, although may need to be strengthened in the future.

Draft NZ CS 2 contains adoption provisions available to entities the first time that they are required to disclose.



Ensuring disclosures continue to be fit for purpose and not overburden directors and boards

While there are benefits to these disclosures and they are generally appropriately framed for this first round of implementation, we think it is important to keep the reporting manageable. This includes continuing to pay attention to the extent of the reporting obligations in the context of wider reporting requirements. By doing so this will ensure that the effort required with scenario analysis, among other reporting requirements, is justified by the benefits, and builds from the sector-based analysis the XRB has promoted.

We also note that the XRB has been conscious of the costs to organisations of providing the climate-related disclosures. There are two possible sources of additional costs for climate reporting entities that will need ongoing attention:

- Disclosure requirements of those things that are already being done. It is clear from submissions and other information that many are already taking action and the only additional cost for those entities will be changes to what is already being disclosed, including their governance approaches. Listed entities are guided by the [NZX Corporate Governance Code](#) which covers these ESG disclosures. The new XRB Climate Standards will help to standardise

these approaches in relation to climate change against approaches already used by some entities following the approach developed by the Taskforce on Climate-Related Financial Disclosures (TCFD).

- Documenting and disclosing climate-related governance approaches for the first time. There will be some organisations who do not match their larger peers and have less maturity in foreseeing and managing climate-related matters.

We think that sharing directors and boards sharing experience and building their capability is also important. They can do this through [Chapter Zero New Zealand](#), training provided through the IoD on governance good practice generally, as well as in specific areas including risk management and participation in regular Chapter Zero events.

Yours sincerely



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