



22 November 2021

External Reporting Board
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Submission on Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures

The Institute of Directors (IoD) appreciates the opportunity to comment on the External Reporting Board's (XRB's) [Governance and Risk Management Consultation Document](#), ('Document') which will form part of the proposed standard, *Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)*.

In October 2021 the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill passed into law, broadening non-financial reporting, by requiring and supporting the making of climate-related disclosures by certain climate reporting entities. We [submitted](#) on the Bill and were pleased to see changes reflected in the Act in particular excluding smaller issuers, providing a longer lead in time for assurance requirements and removing the disclose or explain provision.

The new Act provides for XRB to develop climate standards as part of the climate-related disclosure framework, along with guidance on environmental, social and governance matters.

The impacts of climate change are already being felt in many countries and urgent action is required. Boards have a critical role in confronting and responding to climate-related issues and risks to ensure the long-term sustainability of their organisations and to understand and alleviate their impact on the environment. Climate action is a key leadership theme and the IoD has identified it as one of our Top Five Issues for Directors, each year since 2018.

About the Institute of Directors

The IoD has over 10,000 members and 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.

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

Summary of IoD submission

We support the approach the XRB is taking to developing climate-related disclosure standards, including, in particular:

- starting with the Governance and Risk Management sections which will allow boards to begin work to ensure they have the right governance structure, processes, skills and experience in place to meet their obligations
- focusing the standard on high level areas of disclosure, rather than being overly prescriptive. Creating a short and succinct standard, with accompanying guidance, will allow organisations the flexibility to decide what information to provide, depending on the extent to which they are impacted by climate change
- the staged consultation process. This will allow organisations to get started immediately, which is important as the timing around the introduction of the regime is tight.

We also support the XRB's approach in the Governance section of NZ CS 1 to not require disclosure of specific climate-related skills and competencies of individual board members. While it is important that boards have an appropriate understanding of climate-related issues within their organisation, boards need the flexibility to create a diverse group with the relevant knowledge, skills, experience and background suitable for the organisation overall.

It is important that the reporting regime does not become a compliance exercise, that it goes beyond compliance and enables effective, meaningful reporting that helps drive strategic thinking and change.

To help ensure an effective and successful reporting regime, we encourage the XRB to:

- ensure the standards result in meaningful reporting that is:
 - relevant and of value to a wider group of stakeholders as well as the intended primary users
 - appropriate to be applied to a wider group of reporting entities should the regime be expanded at a later date.
- ensure the standards remain consistent and aligned with other national and international reporting frameworks, and in particular with the climate-related disclosure standard expected to be developed by the newly formed International Sustainability Standards Board.
- provide sufficient guidance, education and support for entities to develop capability and competence and ensure they are in a position to make meaningful disclosures.

Background and overview

New legislation

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (the Act) passed into law in October 2021. Our submission on the Bill generally supported the introduction of climate-related disclosures, and agreed that disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD framework) were an appropriate means of reporting climate-related disclosures in New Zealand. The Act requires 'climate reporting entities' (CRE's) to prepare climate statements in

accordance with climate standards to be issued by the XRB. CREs are defined in the Act and include approximately 200 large publicly listed companies, insurers, banks, non-bank deposit takers and investment managers.

Some Crown financial institutions (with greater than NZ\$1 billion in total assets) will also be required to report through separate 'letters of expectation' issued by the Minister of Finance.

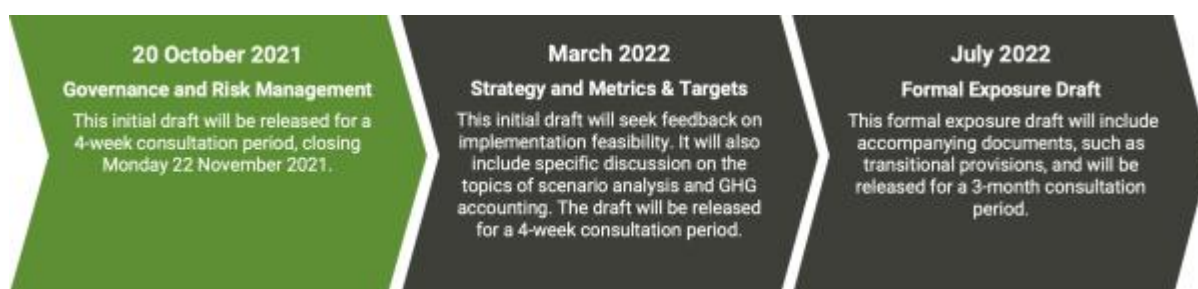
The Financial Market Authority will be responsible for monitoring and enforcing the new regime, while the XRB is responsible for developing the climate reporting standards, and also has the power to issue non-binding guidance on other non-financial matters.

Development of climate-related disclosure standards

The Act gives the XRB a mandate to develop a climate-related disclosures framework, and it intends to issue the following:

- Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1). This will be the main disclosure standard and will be based on the recommendations of the TCFD.
- Aotearoa New Zealand Climate Standard 2: Adoption of Climate-related Disclosures (NZ CS 2). This will be an adoption standard to enable entities to begin their climate-related disclosure journey.
- Aotearoa New Zealand Climate-related Disclosures Concepts (NZ CRDC). This will be an authoritative notice containing key concepts, like materiality. XRB also intends to issue accompanying guidance, although this will not be mandatory.

The standards will be developed and delivered through the following three iterations.



The XRB aims to issue its first climate standard in December 2022, meaning CREs would be required to make disclosures from early 2024 (at the earliest) for annual reporting periods starting on or after 1 January 2023.

Proposed Governance and Risk Management sections of NZ CS 1

The Document focuses on the first stage of the consultation, the Governance and Risk Management sections of NZ CS 1. (The next XRB consultation in March 2022 will focus on the proposed Strategy, and Metrics and Targets sections). Each section is split into three parts:

1. The disclosure objective

2. An explanatory paragraph
3. The required disclosures

The Governance section

The proposed Governance section is intended to provide primary users with an understanding of both the board and management's role in overseeing, assessing and managing climate-related issues. This includes:

- a description of the board's oversight of climate-related risks and climate-related opportunities
- a description of management's role in assessing and managing climate-related risks and climate-related opportunities.

The Risk Management section

The proposed Risk Management section is intended to enable primary users to understand how an entity's climate-related risks are identified, assessed and managed, and how those processes are integrated in existing risk management processes. Combined with the strategy disclosures it helps support evaluations by primary users of the entity's overall risk profile and risk management activities. Information must be disclosed for both transition risks and physical risks and includes:

- a description of its processes for identifying and assessing climate-related risks
- a description of its processes for managing climate-related risks
- a description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management.

IoD comments

Nature of the framework

We support the XRB's intention to make NZ CS 1 short and succinct; and focused more on high-level areas for disclosure, rather than being too prescriptive. This will allow flexibility for CREs to provide the level of information they determine is required, depending on the extent to which they are impacted by climate change. Accompanying guidance will provide valuable help and support for organisations, especially for those who have not yet begun any reporting in this area.

Starting with the development of the Governance section will allow boards to begin work to ensure they have the right governance structure, processes, skills and experience in place to meet their obligations and will allow CREs time to capture new data and implement new processes.

We note that many other businesses may choose to voluntarily report in accordance with the regime; or may be required to disclose information to the CREs they do business with in order for the CREs to fulfil their obligations under the Act. Over time the government may also choose to apply reporting requirements to other entities. The potential for wider coverage means it is important that the framework of the regime is effective, proportionate and workable for a wider group of entities than just the CRE's currently captured under the Act.

We agree that sector-specific requirements should be provided as accompanying guidance. It is

important the adoption standards in NZ CS 2 and the publication of NZ CRDC provide sufficient support and assistance in transitioning to the new reporting regime.

Primary users

The XRB proposes the intended primary users of the disclosures are existing and potential investors, lenders and insurance underwriters. We agree these users are most likely to be primary users. We also agree with the XRB there will be a wider group of users (stakeholders) who will also find these disclosures of interest, such as government, regulators, civil society, analysts, customers and employees, and the general public. It is important that all potential users are able to understand the disclosures and find the information relevant and useful.

Meaningful reporting

We agree with the XRB that this reporting regime should not simply be considered a compliance exercise. Consistent reporting in accordance with the regime will provide many benefits, including:

- ensuring CREs routinely consider the effects of climate change in relation to their organisations, which will enable more informed decision-making
- CREs will be able to demonstrate responsibility and foresight in relation to climate issues, and manage critical and strategic risk
- helping contribute towards the transition to a more sustainable, low-emissions economy

Many of our members are already reporting on climate-related risks and opportunities in their organisations. In our 2021 *Director Sentiment Survey*, 48% of respondents (up from 35% in 2020) reported that their board is engaged and proactive on climate change risks and practices, while 20% of all respondents (68% of publicly listed companies) said their latest annual reports included disclosures on climate related risks and/or the impact of climate change on their organisations.

Meaningful reporting that goes beyond compliance helps drive strategic thinking and change.

Timeframes and capability development

As we highlighted in our previous submission, the proposed timeframes for introducing the reporting regime were very tight. We were pleased to see the Act included a longer lead-in time for assurance requirements. It is critical that organisations have notice/time to prepare and collect data and information, especially in relation to the base year's reporting. Reporting comparative information for the prior year will be challenging and we request that XRB confirm as soon as possible that comparative information will not be required in Year 1 reporting.

It is helpful that the XRB has started consulting early and in stages as this means organisations can start preparing early. It is essential that capability in climate-related reporting and assurance is developed and supported to enable an effective regime.

Domestic and international comparability

In recent years there has been a proliferation of international bodies and reporting frameworks relating to sustainability and climate-related reporting and we were pleased to see another step towards harmonisation of international bodies with the announcement of the establishment of the

International Sustainability Standards Board (ISSB) at COP26.

It is critical that the XRB continues to work with the international bodies (especially the ISSB) as it develops its own standards to ensure our approach remains consistent and aligned with global developments.

Disclosure of specific climate-related skills and competencies on boards

We support XRB's proposal that the Governance section of NZ CS 1 does not require disclosure of specific climate-related skills and competencies of individual board members. Boards are at their best when they are distinguished by diversity of thought and capability. While it is important that boards have an appropriate understanding of climate-related issues within their organisation, boards need the ability to create a diverse group with the relevant knowledge, skills, experience and background suitable for the organisation overall. If boards do not initially have the appropriate expertise in this area then they will need to ensure they seek advice from subject experts to help them develop their own knowledge and capability.

Guidance, support and education

Guidance, education and support will be essential to help organisations fulfil their reporting requirements and for entities to develop capability and competence and ensure they are in a position to make meaningful disclosure under the new reporting regime. We welcome the XRB's intention to issue ongoing accompanying guidance documents that can provide additional detail where needed and be more readily updated.

Conclusion

Urgent action is required to address the effects of climate change and we support the approach the XRB is taking to developing climate standards and guidance. The proposals are focused on a high level of disclosure, providing CREs with the necessary level of flexibility to create meaningful reporting depending on the extent to which they are affected by climate change. Consistency with other reporting standards will be essential, along with guidance, education and support, especially considering the tight timeframes before the regime is introduced.

We appreciate the opportunity to comment on behalf of our members.

Yours sincerely,



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