Climate-related disclosures
An update

April Mackenzie
3 July 2021
Our Vision

New Zealand prospers through effective decision making informed by high-quality, credible, integrated reporting.
New climate disclosure regime

September 2020
Government announced intention to introduce mandatory climate-related disclosures

April 2021
The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill had its first reading in the House in April. Select Committee submissions closed 28 May.

August 2021
Report to Select Committee due

Legend
Legislative approval process

2023
Expected first reporting period

Late 2021
Bill expected to be passed

Late 2021
Why disclose?

Climate reporting will take Aotearoa New Zealand a step closer towards a low carbon future and a cleaner safer planet for future generations. Its also makes good business sense.

Plan better - spend smarter

✓ Enabling companies with **strategic planning** and the ability to evaluate risks and exposures over the short, medium and long term
✓ evaluate **climate-related risks** to company operations, suppliers and assets
✓ Make better informed **capital allocation** decisions

Investor/consumer attraction & retention

• Increased investor demand for climate risk disclosures
• Companies that dawdle may become less attractive to investors and may struggle to secure capital.
• Mitigate potential reputation issues & maintain social license to operate
In-scope entities

- All listed issuers of quoted equity securities or quoted debt securities
- Large registered banks, credit unions and building societies (total assets $1b+)
- Large licensed insurers (total assets $1b+ or gross premiums $250m)
- Large managers of registered (investment) schemes (total assets under management $1b+) – in respect of the scheme(s)
### Relevant provisions

| Where to report? | In a “climate statement” prepared in accordance with XRB standards – **mandate extended**  
Outside of annual report but with cross-reference |
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<tr>
<td><strong>Is 3rd party assurance mandatory?</strong></td>
<td>Yes – but only over greenhouse gas emissions disclosures and exception (see below) by a CRD assurance practitioner</td>
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<td><strong>Is the statement to be published?</strong></td>
<td>Yes – within 4 months and together with the CRD assurance practitioner’s report</td>
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| **Anything else I should know?** | CRD assurance practitioner to belong to accredited CRD assurance body  
Exception for entities that determine they are not materially affected by climate change  
When information is excluded because it is deemed IMMATERIAL, explain what kind of information it is and why it is immaterial |
New Zealand’s standards will be based on the Taskforce on Climate Financial Disclosures (TCFD) Framework

This Framework has 11 key disclosures over 4 pillars:

- **Governance**: Oversight of climate-related risks and opportunities
- **Strategy**: Actual and potential impacts of climate-related risks and opportunities in business, strategy and financial planning, if material
- **Risk Management**: Process used to identify, assess and manage climate-related risks
- **Metrics & Targets**: Used to assess and manage relevant climate-related risks and opportunities, where material
We’ll work iteratively and pair the four pillars, releasing draft sections for consultation.

Governance & Risk Management in **October 2021**

Strategy, Metrics & Targets section **Feb-March 2022**

** Bringing it all together in an ‘Exposure Draft’ for final consultation in **July 2022**. **
Timeline

Context analysis

Engagement - - - Consultation

Prepare draft Standard

Consult on draft standard

Review and update

Publish standard

Entities start to report

Dec 2020 - Mar 2021

Apr 2021 - Jun 2022

Jul-Sep 2022

Oct-Nov 2022

Dec 2022

2023

Legislation enacted

Develop guidance
Engagement is critical

**Investors**  Understand information needs.

**Māori**  Support an application of te ao Māori

**Industry**  Clarify whether different industries will require different disclosure specifics

**Preparers**  Assess data and information challenges

**Assurance providers**  Understand potential difficulties that may emerge conducting assurance.

- Focus groups
- Workshops/events
- 1:1 engagement
Start now

Explore

There’s a wealth of info readily available. Get familiar with the terminology and identify where you might need (expert) help.

Engage

Form a coalition of the willing (with senior roles) from across your organisation and start a conversation about what implementation might look like.

Measure

Assess your current footprint and understand what measuring GHG emissions might involve.
Extended mandate...

XRB•Position•Statement•on•Extended•External•Reporting•(EER)▌

8•March•2019▌

- The External Reporting Board (XRB) strongly supports the reporting of EER information by entities within their annual report to the extent that the information is relevant to the intended users of annual reports.

- The XRB considers that other types of, or more detailed, EER information, which may be demanded by other stakeholders, may be better located outside of the annual report.
But it is not all about preparing the report...
EER assurance guidance
Misha Pieters
What is EER

EER is non-financial reporting

- Increasingly critical to decision-making by investors/other users
- Climate reporting - TCFD
- Sustainability Reports around for a while, based on the GRI
- Environmental, social, economic impacts – “ESG” or “CSR” reporting
- Integrated Reports came later, based on the <IR> Framework
- Value creation story across the six capitals: Financial, human, intellectual, manufactured, natural and social & relationship capitals
- Sector-specific, e.g. public sector Service Performance Reports
- Country-specific, e.g. Strategic Reports in the UK
- Narrative typically more prominent in EER
### IFAC: The State of Play in Sustainability Assurance

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>91%</td>
<td>Of companies in the study report some level of sustainability information</td>
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<tr>
<td>51%</td>
<td>Of companies that report sustainability information obtain some level of assurance on it</td>
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<tr>
<td>63%</td>
<td>Of these assurance engagements were conducted by audit or audit-affiliated firms</td>
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<td>88%</td>
<td>Of assurance engagements employing an audit firm use ISAE 3000, while other service providers rely on alternative assurance standards</td>
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<tr>
<td>83%</td>
<td>Of all assurance engagements result in limited assurance reports</td>
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There are significant differences across jurisdictions.
Guidance Purpose

• The aim of the IAASB in issuing the Guidance is to promote consistent high-quality application of ISAE 3000 (Revised) in EER assurance engagements to:
  • Strengthen the influence of such engagements on the quality of EER reporting
  • Enhance trust in the resulting assurance reports
  • Increase the credibility of EER reports to that they can be trusted and relied upon by their intended users

IAASB EER Assurance guidance
Navigation

Guidance
- 12 chapters
- Behavioural aspects
- Process
- Specific considerations
- Level of assurance

Credibility model
- Four factors to enhance trust
- Use by practitioners, preparers and users of EER

Examples
- Detailed case study examples
EER Credibility and Trust Model

1. Sound EER Framework
   - Criteria – who, what, why, when, where and how of the report
   - Oversight and management functions
   - Effective system of internal control, with "Lines of Defense", including internal audit
   - Obtaining external professional services

2. Strong Governance
   - Transparency of:
     - Reporting framework
     - Governance
   - Internal and external sources of information
   - Publication of professional services reports(s):
     - assurance
     - other

3. Consistent Wider Information

4. External Professional Services and Other Reports

Key:
- Four Factors
- Output
- Outcomes

Adapted from the IASB Additional EER Support Material
Navigating the guidance

1. **Competence and Capability**: Multi-disciplinary teams are key
2. **Professional Scepticism and Professional Judgement**: EER reporting systems can be immature

- Acceptance
- 3. **Preconditions & Scope**: Assurance readiness exercises are increasingly used
- Planning
- 4. **Process to identify reporting topics**: what “materiality” means in the non-financial sense
- 5. **Criteria**: Sound EER framework i.e., What, when, where and how
- 6. **Internal Control**: A lack of strong or mature internal controls can be a barrier to assurance.
- Procedures
- 7. **Assertions**: Again, this terminology can be unfamiliar for non-financial auditors
- 8. **Evidence**: Types of evidence for EER are varied and are they sufficient?

- Forming a conclusion
- 9. **Materiality**
- Reporting
- 12. **Assurance report**

- 10. **Qualitative information**: Guidance when auditing narrative or “words” not “hard and fast data”
- 11. **Future Oriented Information**: How can we audit something that hasn’t happened yet?

- **Appendix 3 Limited/Reasonable assurance**
Scope of assurance

• Scope of assurance
  – Whole EER report
  – Specific topics
  – Specific metrics
  – Different level of assurance for different aspects
  – Rationale purpose

• Assurance readiness

• Independence
Communicating Effectively in the Assurance Report

• Recognises importance of contextual information to support assurance over different subject matters to help users better to understand the opinion(s)

• Recognises benefits of long-form reporting to support more meaningful assurance and enhancing user confidence
  – Summary of procedures performed
  – Use of recommendations.
Appendix 3 Limited/Reasonable assurance

- Pale blue arrow
- Example procedures towards the lower range of limited assurance

- Middle blue arrow
- Incremental example procedures towards the middle of the range

- Darker blue arrow
- Incremental procedures
- Below reasonable assurance
• 1: Competence
• 2: Rational purpose
• 3: ‘Rolling program’ of assurance and rational purpose
• 4: Suitability of criteria
• 5: Process to identify reporting topics using the GRI
• 6: Assertions re: misstatements in subject matter information
• 7: Obtaining evidence for public sector reporting
• 8: Application of criteria versus ‘other information’
• 9: Non-financial and financial subject matter information in Management Commentary
Support material

• 10: Using the Integrated Reporting Framework as criteria
• 11: Public sector performance statement
• 12: Suitability of criteria for subject matter information on intellectual capital
• 13: Obtaining evidence for external and multi-site information
• 14: Lack of application/misapplication of suitable criteria for qualitative information
• 15: Future-oriented, qualitative and ‘other information’ using SASB Standards as criteria
• 16: Task Force on Climate-related Financial Disclosures (TCFD) reporting
• 17: Evaluating quantitative and qualitative misstatements
Questions?