NEW ZEALAND BANKERS ASSOCIATION

Submission

to the

External Reporting Board

on the

Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) Strategy and Metrics and Targets Consultation

2 May 2022

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About NZBA

1. The New Zealand Bankers' Association (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.

2. The following seventeen registered banks in New Zealand are members of NZBA:
   - ANZ Bank New Zealand Limited
   - ASB Bank Limited
   - Bank of China (NZ) Limited
   - Bank of New Zealand
   - China Construction Bank
   - Citibank N.A.
   - The Co-operative Bank Limited
   - Heartland Bank Limited
   - The Hongkong and Shanghai Banking Corporation Limited
   - Industrial and Commercial Bank of China (New Zealand) Limited
   - JPMorgan Chase Bank N.A.
   - Kiwibank Limited
   - MUFG Bank Ltd
   - Rabobank New Zealand Limited
   - SBS Bank
   - TSB Bank Limited
   - Westpac New Zealand Limited

Introduction

NZBA welcomes the opportunity to provide feedback to the External Reporting Board on the Aotearoa New Zealand Climate Standard 1: Climate Related Disclosures (**the Standard / NZ CS 1**). NZBA commends the work that has gone into developing the Standard and related assurance and materiality proposals for the climate-related disclosures framework.

Contact details

3. If you would like to discuss any aspect of this submission, please contact:

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Summary

Overall support from NZBA

4. NZBA members continue to support the policy underpinning the introduction of climate related disclosures reflected in the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. Financial markets are already playing a major part in shifting investment towards low-emissions, resilient, development pathways, assisted by the disclosure to investors of consistent, comparable, reliable, and clear information about climate-related risks and opportunities.

5. NZBA members are both publishers and primary users of climate statements. NZBA supports a high-quality and robust climate-related risk reporting regime that enhances comparability across all reporting sectors. NZBA members are committed to producing high-quality climate-related disclosures, with some members producing voluntary disclosures already.

Support for international alignment and flexibility

6. It is critical that the Standard continues to develop in accordance with international standards. NZBA members which are subsidiaries or local branches of overseas banks already see the importance of aligning NZ reporting requirements to international standards to develop capacity and reduce inefficiencies.

7. NZBA recognises the high quality evolving guidance from the TCFD, and the IFRS Technical Readiness Working Group of the ISSB.[1] NZBA proposes various alignments to the ISSB Protocol released on 31 March 2022 (after the XRB consultation was published), conscious also that this will continue to develop internationally. Given the particular speed at which this policy area is developing internationally, NZBA asks that wherever possible, New Zealand adopt the option with most flexibility for reporting entities. This recognises evolving capacity within reporting entities and future-proofs the Standard.

8. NZBA reiterates the extensive internal capacity-building and resourcing underway within banks to produce voluntary disclosures and prepare for mandatory reporting. But a significant uplift in capacity will be required to meet the detail contained within the proposed Standard. This submission seeks to support the draft Standard wherever possible, while proposing certain adjustments to acknowledge some of the most challenge disclosures.

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[1] TCFD "Guidance on Metrics, Targets, and Transition Plans" October 2021 at https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf; ISSB "Exposure Draft IFRS S2 Climate-related Disclosures" at https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf, referred to in this submission as the ***ISSB Protocol***.

Guidance for banking sector essential

9. While there are many commonalities and cross-sector components of the new disclosure regime, the content required for the banking sector is specific and, in many cases, particular to our sector, particularly in respect of reporting scope 3 financed emissions.

10. NZBA seeks that XRB provide banking sector specific guidance to assist reporting entities to understand what is expected of their disclosures, and how best to address challenges that arise for the banking sector, particularly how to manage issues of data availability when calculating scope 3 financed emissions. NZBA would welcome the opportunity to work with XRB to develop such guidance. That is particularly critical to guide reporting entities as they build capability and capacity within their organisations to deliver on the material included in disclosures.

Strategy Disclosures

11. NZBA members are developing capacity to produce increasingly detailed disclosures on strategy responding to climate-related impacts. Members can increasingly identify and assess climate-related risks and opportunities on strategy and financial performance. However, detailed forward-looking quantitative reporting will take time to get right. This depends on specific data from banking customers, and available aggregated data where customers are not yet providing this data themselves, as well as internal resource and capacity.

12. Members propose that the Standard sensibly recognise that initial reporting may need to be more descriptive or explanatory where data is not available. For these reasons, members support:

    (a) pragmatic qualifiers added to the overarching proposed Strategy Disclosures, as proposed in the ISSB Protocol, to focus on "***significant*** *climate-related risks and opportunities*" that "*[a reporting entity]* ***reasonably expects could affect***" business, strategy and cash-flows;

    (b) the XRB's proposed adoption provision for Year 1 to allow reporting entities to report qualitative information only for Disclosures 5(c) and 6(c) (and extending this to Disclosure 5(d) as set out below);

    (c) recognition, as proposed in the ISSB Protocol, that qualitative information may be provided where quantitative information is not available (so long as an explanation is provided as to why it is not available); and

    (d) recognition in the Standard (or Guidance) that quantitative data may not be available, or may not be sufficiently accurate to justify reporting at a granular level across all portfolios.

13. NZBA requests specific guidance as to the level of detail required in light of commercial sensitivity considerations. For example, the ISSB Protocol states that if

stating quantitative information reporting entities may use either a range or a single number – NZBA suggests the same approach would be appropriate for XRB Guidance.

Metrics and Targets Disclosures

14. In relation to the proposed cross-industry metrics:

    (a) NZBA proposes adjustments to the proposed cross-industry metrics which pose particular difficulties in New Zealand's relatively small market if required at certain levels of detail (eg. investment deployed towards climate-related opportunities by sector, and management remuneration).

    (b) NZBA also proposes an additional adoption provision for reporting of capital expenditure, financing or investing (in NZD) deployed towards climate related risks and opportunities (Metrics and Targets Disclosure 4(f)) to align these disclosures with the publication of Transition Plans from Year 2.

15. NZBA welcomes the setting of a mandatory industry-specific metric to encourage comparability: namely the disclosure of entities' scope 3 financed emissions (tCO_{2e}). Some members are supportive of mandatory reporting on scope 3 financed emissions (as far as they are able on present data) from Year 1. However, there are also some members that would prefer to see an adoption provision to require this reporting instead from Year 2, in order to allow capability to develop in New Zealand consistent with the emergence of globally conforming standards, including access to, for example, energy use benchmarks and / or emission factors across key lending portfolios (eg. SMEs and residential properties) which is not presently available. NZBA otherwise supports the disclosure in Year 1 by the banking sector of scope 1 and 2 emissions, and of scope 3 emissions other than financed emissions.

16. In conjunction with this position, NZBA wishes to highlight that the key challenge for the banking sector is that data unavailability means that banks will not be able to presently report scope 3 financed emissions for a number of portfolios. For example, banks do not have access to data or even sector-level estimations for the emissions generated by most small businesses and residential households. That data is necessary for banks to calculate the financed emissions associated with their small business and mortgage lending. Although banks can increasingly identify and report on credit risks in relation to these lending portfolios (under Strategy), they cannot report on financed emissions (under Metrics) because this depends on some level of emissions data being available.

17. NZBA seeks Guidance that specifies when qualitative statements would be considered compliant with the Standard or what type of estimates and assumptions should be used if quantitative information is unavailable or uncertain. One practical step is for XRB to continue to acknowledge the internationally supported Principles for Carbon Accounting Financials (**PCAF**) methodology (conscious that this is also likely to develop), which allows reporting entities to recognise data constraints and

assumptions when reporting financed emissions by reporting a “PCAF score” that can improve as data improves.

18. NZBA sets out details in this submission as to how government could provide access to this data and also how to deal with the data uncertainty in the meantime (including where data constraints are such that banks cannot attain even the lowest PCAF data quality score).

Materiality

19. NZBA members are supportive of the alignment between the definition of materiality in climate statements and existing accounting standards. Members support the XRB’s proposal not to adopt a double materiality standard, for the reasons set out in the consultation document. Members recognise the importance of a combined quantitative and qualitative assessment. Members caution the focus on “*enterprise value*” if this does not sufficiently incorporate less tangible climate-related risks.

Assurance

20. NZBA members are supportive of requiring no more than limited assurance at this early stage, given capacity constraints both on reporting entities and in the assurance profession.

Next steps

21. NZBA commends the work that has gone into developing the Standard and the iterative consultation and engagement process.

22. As noted in our November 2021 submission on the Governance and Risk Management sections of the Standard, NZBA and its members are committed to engagement with the XRB and welcome the opportunity to work with XRB through 2022 to develop banking sector-specific guidance (referred to throughout as **Guidance**). This work should also be aligned with the Reserve Bank of New Zealand’s work on development of an industry approach to stress testing.

Detailed Response to Consultation Questions

Strategy Disclosures

Scope and detailed nature of Strategy Disclosures

Question 1: Do you think the proposed Strategy section of NZ CS 1 meets primary user needs?

a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.

b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?

c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles based disclosures? If not, what should be removed or added to achieve a better balance?

23. The proposed Strategy section is rigorous and will be challenging for reporting entities to fully respond to by FY2024 as members invest in internal capability to respond to the regime. Many NZBA members have already invested significantly into developing voluntary TCFD disclosures and appreciate the difficulty of producing forward-looking financial forecasts with significant data constraints. NZBA members support the drive for all reporting entities to take up the challenge of reporting on climate-related issues. However NZBA asks that the XRB recognise in its Guidance the significant uplift in reporting entity capability and capacity that is required, and that as capability develops, so too will the quality and detail of climate statements. XRB should acknowledge explicitly that, in the first few years, reporting entities may need to make qualitative rather than quantitative statements, may not be able to provide high levels of detail in their disclosures, or may be working in low-information environments.

24. As users of climate statements from their banking customers, NZBA members are supportive of a Climate Standard that focusses reporting entities on producing insightful disclosures. NZBA makes three overarching comments on the Strategy disclosures:

    (a) First, NZBA suggests that the Standard adopt the language in the ISSB Protocol (para 8(a), 9 and 13(a)), that reporting entities must disclose information about "*the **significant** climate related risks and opportunities **that it reasonably expects could affect** its business model, strategy and cash flows*". This qualified language is pragmatic and would give reporting entities confidence that they can appropriately report the most relevant information for users. Members prefer not to rely solely on materiality when making disclosures in their Strategy section (as XRB suggests in its Comparison Table at p 5) because:

        (i) risks or opportunities might be identified as material to a reporting entity because they are viewed as influencing a user's investment decision (and would ultimately be disclosed to the market on that basis in other parts of the climate statement or financial reports), but they might not be considered "significant" in terms of informing the disclosure in the entity's Strategy section of its climate statement. While NZBA agrees that these two thresholds will often align, NZBA would prefer that the required strategy disclosures align with the international standard per the ISSB Protocol and specifically limit strategy disclosures to "significant" risks and opportunities.

        (ii) this language is easier for reporting entities to understand in the context of the Strategy section: it makes sense that this section of reporting should be limited to significant risks and opportunities, while other sections might require more granular assessments of whether a disclosure is material, even if not "significant".

(iii) this approach is also aligned with the Net Zero Banking Alliance (which one member has joined) which focuses on prioritising efforts where banks have, or can have, the most significant impact, including the most GHG intensive and GHG emitting sectors within our portfolios.

(iv) this language will have the added benefit of avoiding obscuring relevant information with too much detail.

(b) Second, the Standard should recognise that these disclosures may be able to be provided without disclosing specific quantitative information where this is undermined by limited data and significant assumptions. For example, NZBA members appreciate that a business customer could usefully disclose information about climate-related impacts on strategy and financial planning, including on its financial position and financial performance, without providing quantitative cashflow estimates. Similarly, a business customer could report on the potential financial impacts of climate-related impacts on its financial position and performance without disclosing specific forward-looking cashflow modelling. The Standard should adopt the ISSB Protocol wording that "*An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information*" (and explain why it cannot disclose quantitative information).[2]

(c) Third, NZBA asks that XRB recognise, via Guidance, that quantitative responses to Strategy Disclosures 5(b) – (d) and 6(c) may be commercially sensitive if provided at a certain level of detail. Members suggest Guidance encourages reporting entities to adjust disclosures that might otherwise be commercially sensitive so that decision-useful information can still be provided (as opposed to no information being provided) and that disclosures may be appropriately restricted where necessary, and only where alternative desensitised data cannot be provided.

25. NZBA makes the following specific recommendations to include clarity in Strategy Disclosures at paragraphs 4 – 6 of the Standard (referred to as "**Strategy Disclosures**" by paragraph number):

(a) Strategy Disclosures 4, 5 and 6: As at para [24(b)] above, the Standard should appropriately recognise difficulties accessing quality data for a range of these disclosures as the ISSB Protocol does.

(b) Guidance for the financial sector should recognise that Strategy Disclosures 4 – 6 are likely to cover bank lending and some investment portfolios, but not other income streams (eg. foreign exchange trading) as suitable methodologies are not yet available. For example, the PCAF

2 ISSB Protocol, at [14].

Standard methodology presently covers listed equity and corporate bonds, business loans and unlisted equity, project finance, commercial real estate, mortgages, motor vehicle loans, but not other income streams.

(c) Guidance for all sectors should explain how Strategy Disclosures 5(b) to (e) and 6(a) to (c) relate to potentially equivalent financial impacts recorded in financial statements. For example:

(i) "*Potential financial impacts*" required by the Standard may overlap in part with recorded *provisions* in financial statements – eg. a probable obligation to bear the cost of a stranded asset.[3] Members may operate on the basis of a distinction between "potential" and expected impacts, whereby the latter refers to likely short-term financial impacts requiring provision for losses. If all potential financial impacts were aligned with provisions, this would limit disclosures and avoid focus on the long term.

(ii) Similarly, "*potential financial impacts*" might align with recorded *contingent liabilities* in financial statements (eg disclosure of a contingent liability from live climate-related litigation). However again, potential financial impacts should not be constrained only to contingent liabilities.

(d) Guidance is needed to understand the XRB's proposal (aligned with the IFRS TRWG language) to require disclosures of how short, medium and long term time frames are linked to the entity's own strategic planning horizons. Some NZBA members are using much longer time frames in their voluntary reporting (eg 30 years plus, or up to 2100) to align with longer time frames envisaged by climate scenario analysis. Members seek guidance as to whether XRB is anticipating reporting entities view "long term" disclosures as aligned with their "long term" strategic planning (which could, eg. be 10 – 25 years) or whether these should be on an even longer horizon to reflect climate modelling.

(e) Strategy Disclosures 5(e) (requiring Transition Plans) and 6(b) (requiring disclosure of how strategy might change to address risks and opportunities) effectively cover the same content. Disclosure 6(b) could be removed once Transition Plans are required from Year 2 onwards.

(f) Currently, significant emphasis is placed on written descriptions in the XRB disclosures. NZBA suggests that XRB align language in any Guidance to indicate that information can, as appropriate, be presented via charts, tables and diagrams, rather than written descriptions.

26. NZBA generally supports the proposed disclosures related to methodologies and assumptions in Strategy Disclosure 6 (Resilience) and makes the following comments:

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3 See eg, discussion in Climate Standards Disclosure Board "Accounting for climate: Integrating climate-related matters into financial reporting" December 2020, p 17.

(a) Strategy Disclosures 6(a) and 6(c) require disclosure of the "*potential impacts*" of climate-related risks and opportunities on business model and strategy, and "*potential financial impacts*" of these risks and opportunities on financial position, performance and cashflows. "*Potential*" impacts are then defined as "*plausible*" impacts. NZBA considers that "*plausible*" is too low a bar to justify these important disclosures. NZBA proposes that:

(i) the Standard should adopt the ISSB Protocol approach, which asks for disclosures as to "*how [the entity] expects its financial position to change over time*" (para 14(c)); or

(ii) alternatively, the Standard could define "*potential*" as impacts that are "reasonably likely" (rather than "*plausible*" impacts).[4] This would align with both the TCFD recommendations and the ISSB Protocol, which do not use the term "*plausible*" in relation to these Strategy disclosures.[5]

(b) On either approach, Members are concerned that "*potential*" impacts are not equivalent to the ISSB Protocol wording which refers to risks which "*could reasonably be expected to have a financial effect*", which is the justification provided in XRB's Comparison Document (p 6).

(c) Note the above outcome would be intentionally different to the current definition of "*climate-related scenario*", which is defined by TCFD as a "*plausible description of how the future may develop*".

27. NZBA generally supports the proposed disclosures related to methodologies and assumptions in Strategy Disclosure 7 (Scenario analysis) and makes the following comments:

(a) Disclosure 7(b)(ii) regarding the governance process used to oversee and manage scenario analysis would be more appropriately located in the Governance section, while recognising that entities retain discretion as to how to provide the disclosures.

(b) In addition, as set out in the NZBA's earlier submission on Governance in November 2021, in consideration of the branch structures of many members, it would be beneficial to replace the references to "*board*" with "*governance body or bodies*" as used in the ISSB Protocol (or provide Guidance that the phrase "board" can include governance body where appropriate). This would provide flexibility to branch operations to reflect the governing authority that most directly impacts action undertaken in New Zealand.

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4 "Potential impact" is defined by the TCFD as "*Potential impact refers to financial impact that* ***may occur*** *in the future …*"

5 The TCFD Guidance only uses the term "*plausible*" in relation to scenarios (ie "*scenarios are a plausible description of how the future may develop*…".

Business Model and Strategy

Question 2: Do you agree that a standalone disclosure describing the entity's business model and strategy is necessary? Why or why not?

28. NZBA supports the standalone disclosure of the entity's business model and strategy to help users to understand the scope of an entity's business. NZBA queries whether reference to "*business model*" is necessary, as this suggests more detailed disclosure of an entity's operating model. Disclosure of the entity's "*business and strategy*" would likely be sufficient. (NZBA notes that the ISSB Prototype uses "business model" but TCFD does not).

Scenario Analysis

Question 3: Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP4.5 or 6), but rather leave this more open by requiring a 'greater than 2°C scenario'? Why or why not?

29. No - NZBA members would prefer one set of mandated temperature increase scenarios to encourage comparability and give certainty to primary users. NZBA members are actively working to develop sector-specific standardised climate scenarios and this would assist this work. Reporting entities can also include additional scenarios if they wish. If there was a particular reason why a reporting entity wanted to use a different set of scenarios this could be permitted, so long as an explanation was provided.

30. NZBA also encourages Government to publish a consistent set of physical risk data for input into entities' climate scenarios used for scenario analysis.

31. In light of the latest IPCC reporting warning that, without deep emissions cuts a plausible future includes temperatures well above 2°C, NZBA suggests that a "*greater than 2°C*" scenario is too low as a guideline higher physical risk scenario. NZBA members consider a more appropriate option would be a scenario "*well above 2°C*", or "*greater than 2.7°C*" or "3°C", and/or guidance that reporting entities use specific IPCC Representative Concentration Pathways eg. RCP 2.6 (which correlates to c. 1.5 – 2 degrees of warming) and RCP8.5 (which correlates to c. 5 degrees of warming).

Transition Plans

Question 4: We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?

32. NZBA supports the proposal to require Transition and Adaptation Plans, and the additional time before disclosure of both plans is mandatory (Transition Plans required in Year 2 and Adaptation Plans required in Year 3). It will be useful for XRB to publish guidance on Transition and Adaptation Plans, including:

(a) expected format and content;

(b) how mandatory disclosures should be reflected in these plans (eg. is there an expectation that potential financial impacts would be specified in a Transition Plan as well as in annual Climate Statements); and

(c) whether identified transition risks should also be expressly mandated as needing to be disclosed in the Transition Plan (as otherwise these might not be recognised in either the Adaptation or Transition Plans which is an odd exception).

33. Whether to require alignment between an entity's Transition Plan and a particular target (eg net zero or 1.5 degrees) is an important question for the specific New Zealand context. Members recognise that although international guidance refers to the transition to a "*lower carbon economy*" (eg the ISSB Protocol), New Zealand has adopted specific targets under the Climate Change Response Act 2002 (***CCRA***). Given that the CCRA contains the specific dual targets of (i) reducing GHG emissions to net zero by 2050; and (ii) reducing methane emissions by 24 - 47% reduction on 2017 levels by 2050, it makes sense for New Zealand reporting entities to disclose their Transition Plans towards these specific net zero and methane reduction targets. That will allow for greater cohesion between public and private sector efforts to reduce emissions (eg. as contemplated by He Waka Eke Noa). For financial institutions, it also aligns with the PCAF Standard which notes that when emissions from a specific GHG (eg methane) are material and relevant, financial institutions should consider a separate disclosure of these emissions).

Strategy - Defined Terms

Question 5: Do you have any other views on the defined terms as they are currently proposed?

34. NZBA makes the following specific recommendations on defined terms:

(a) **"climate-related scenario"**: it is not clear how to interpret or apply the proposed requirement embedded within the definition that the description of how the future may develop should be "challenging" as well as "plausible". NZBA requests XRB provide further detail as to what is meant by "*a plausible, challenging description of how the future may develop…*" in this definition.

(b) **"potential"**: The proposed definition of "potential" states that "potential" is effectively defined as "plausible". See comments above at [25].

(c) "**business model**": As above at [28], this concept should be removed entirely. If this concept is retained, then NZBA would propose that the term is left undefined for greater flexibility. For example, the present definition is based on transforming "*inputs*" into "*outputs*" (similar to the ISSB Protocol definition) and works more easily for a listed company than for a financial institution. TCFD does not use this term at all.

(d) NZBA proposes a new definition of "**governance body**" (per previous Submission): "*Governance body: A body elected or appointed to oversee the activities of the entity and which has the ability to hold management accountable. This includes a board of directors, or any other representative of a corporate parent that exercises control over the entity*." This aligns with the ISSB Protocol, which uses the phrase "governance body" to include "*a board, committee or equivalent body charged with governance*".

Strategy Adoption Provisions

Question 6: The XRB has identified adoption provisions for some of the specific disclosures in NZ CS 1:

a) Do you agree with the proposed first-time adoption provisions? Why or why not?

b) In your view, is first-time adoption relief needed for any of the other disclosure requirements? Please specify the disclosure and provide a reason.

c) If you are requesting further first-time adoption relief, what information would you be able to provide in the interim?

35. NZBA supports all of the proposed adoption provisions and comments further as follows.

Proposed Strategy adoption provision	**NZBA comment**
In the first statement, no disclosure required in relation to the time horizons over which each climate-related risk or opportunity could reasonably be expected to have a financial impact on the entity (**Strategy Disclosure 4(b)**).	Support. NZBA also asks that XRB's Guidance confirm that no information is therefore required for Disclosure 4(b) for Year 1.
In the first statement, qualitative disclosure only in relation to actual and potential financial impacts (**Strategy Disclosures 5(c) and 6(c)**).	Support. In addition, propose a further one year delay for **Strategy Disclosure 5(d)** (how climate-related risks and opportunities serve as an input to financial planning processes, including for capital deployment and funding). Time is needed to increase capability and familiarity with quantifying financial impacts, which is necessary to provide quantitative information about how capital deployment and funding decisions are made.
Transition plans are only required from the second climate statement (with a description of progress in the first statement) (**Strategy Disclosure 5(e)**).	Support.
Adaptation plans are only required from the third climate statement (with a description of progress in the first and	Support.

second statements) (**Strategy Disclosure 5(e)**).	

Metrics and Targets

Cross industry metrics

Question 7: Do you think the proposed Metrics and Targets section of NZ CS 1 meets primary user needs?
a) Do you think that the information in this section of the standard will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.
b) Do you consider that this section of the standard is clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?
c) Do you consider that this section of the standard is adequately comprehensive and achieves the right balance between prescriptiveness and principles based disclosures? If not, what should be removed or added to achieve a better balance?

36. NZBA members support a set of mandatory cross-industry metrics for all reporting entities, where these make sense across all entities. Certain proposed disclosures make more sense for listed issuers to disclose, than for banks or fund managers, as set out below.

Cross-industry Metrics	**NZBA comment**
4(a) Scope 1 – 3 emissions	Support (see detailed comments on Scope 3 emissions below)
4(b) GHG emissions intensity	Support. NZBA is keen to support XRB in determining Guidance for the banking sector on appropriate guidance for emissions intensity calculations.
4(c) Amount or % of assets or business activities vulnerable to transition risks	Support optionality of amount or % at risk to avoid giving away commercially sensitive information. Support reporting entities having discretion to define "vulnerability", with some guidance as to whether this is based solely on customers' exposure to risk, or whether it also incorporates customers' capacity to respond to risk.

4(d) Amount or % of assets or business activities vulnerable to physical risks	As above.
4(e) Proportion of revenue, assets or other business activities aligned with climate related opportunities (amount or %)	Reporting entities should be able to report this metric for the reporting year in question. However entities should not be required to disclose proportion of revenue aligned with specific opportunities, to avoid giving away commercially sensitive information (eg. % revenues anticipated in next 2 – 5 years from a new green financial product). Propose move to a recommended, not mandatory, disclosure.
4(f) Capital expenditure, financing or investing (in NZD) deployed towards climate related risks and opportunities	Members are concerned that reporting against this category could easily be too broad to be useful (eg. a total NZD figure for all investment deployed towards all climate-related risks and opportunities), while also at risk of requiring disclosure of commercially sensitive information (eg particular investment deployed towards a particular opportunity). Guidance as to the level of granularity required will be important, including whether portfolio level financing or investing is appropriate. NZBA seeks an adoption provision delaying mandatory reporting of this metric to Year 2, because of the connection between these disclosures and the publication of Transition Plans.
4(g) Internal emissions price (NZD/Mt CO_{2e})	Support. NZBA notes that this metric is identified in TCFD guidance and in the ISSB Protocol. NZBA is concerned that disclosure of detailed internal emissions prices on a sector-by-sector or asset-specific basis may not be useful for users and could also risk disclosing commercially sensitive content. For example, in situations where finance is sought for a large project for which there is a high degree of competition among lenders and a small market in New Zealand. Whilst this metric is in the draft ISSB Protocol it is important for XRB to recognize that the ISSB Protocol is likely

	to receive significant feedback from industry globally and we anticipate this confidentiality issue may also be drawn to the ISSB's attention by global submitters.
4(h) Proportion of management remuneration linked to climate related risks and opportunities	Support. However, given the small size of New Zealand's financial services market, disclosure should not be required at a level that would enable a reader to identify elements of individual remuneration packages. A pragmatic alternative would be to permit disclosures of the proportion of executive incentive packages linked to climate related risks and opportunities. Members propose further that: - this disclosure be revised to state "*executive management remuneration*", rather than "*management remuneration*" to focus this disclosure on the most senior executives only; and - Guidance confirm that, for overseas banks with local branches, it is appropriate to recognise only the proportion of remuneration aligned with responsibilities for the New Zealand portfolio.

Targets

37. NZBA members support alignment with the TCFD and ISSB recommendations on Metrics Disclosure 7 (Targets), i.e. the requirements to disclose specific information used to set any published targets. NZBA makes the following comments:

    (a) Financial institutions are likely to set targets to reduce financed emissions and emissions intensity (which both aim to directly reduce GHG emissions), but also targets for sustainable financing and sustainable financial products (which connect less directly to GHG emissions reductions). This gives rise to two related issues:

    (b) the criteria in Disclosure 7 (eg "*whether the target is science based*") do not sit easily with targets that are not specifically linked to GHG emissions reductions. It would be useful to clarify in Guidance that Disclosures 7(a) and (b) are only required for emissions based targets; and

(c) the proposed definition of "target" being: "*a specific level, threshold, or quantity of a metric*" is ambiguous. NZBA requests that the XRB clarify this definition to confirm that targets may be qualitative or quantitative. Alternatively, if XRB intends that all targets should be strictly connected to emissions reduction only, this requires clarification.

(d) Guidance should confirm that reporting entities are not expected to disclose information underpinning targets if that information would release commercially sensitive information (eg. lending data for customers recruited on the basis of access to better sustainable financing). For example, Guidance could confirm whether reporting entities are expected to disclose broad overarching targets for their whole operations, or more granular targets related to any climate risk and opportunity management.

(e) Members support the proposed additional disclosure regarding science-based targets is supported in principle, but further guidance as to the definition of "science-based" should be provided (see [55] below).

Methodology and assumptions

38. NZBA supports in principle the requirement for reporting entities to include Disclosures 11 and 12 regarding the methodology and assumptions made in preparing metrics and targets disclosures.

39. However, Metrics Disclosure 12 regarding uncertainty (disclosure of any metrics with significant estimation uncertainty) is not aligned with TCFD or ISSB recommendations and appears to be unnecessarily distinct. NZBA suggests that the intent of this disclosure requirement could be achieved more simply by aligning with the TWRG prototype recommendation (requiring "*explanations of the methods used to calculate the targets and inputs to the calculation, including the significant assumptions made and the limitations of those methods*", rather than requiring a separate disclosure regarding metrics that have significant estimation uncertainty.

Industry specific metrics

Question 8: We have not specified industry-specific metrics. The guidance will direct preparers where to look for industry-specific metrics. Do you believe this is reasonable or do you believe we should include a list of required metrics by industry? If so, do you believe we should use the TCFD recommendations or follow the TRWG prototype?

40. Members welcome industry-specific guidance to enhance comparability and certainty of expectations.

41. For the banking sector, members propose that XRB specify that Scope 3 emissions from financed emissions are a mandatory (but not exhaustive) industry-specific metric that must be disclosed where data and methodologies allow (noting that some members would seek a one year adoption provision in this regard). See discussion from [44] below.

42. Members also welcome industry-specific (non-binding) Guidance as to other metrics that are recommended for the financial sector (noting that some of these overlap with the more generic cross-industry metrics at Disclosure 4), although recognise the importance of this remaining non-mandatory. These metrics include:

(a) metrics related to credit exposure, equity and debt holdings (potentially broken down by industry, geography, credit quality, and average tenor) (per the TCFD 2021 Implementation Guidance, albeit with the caveat that information broken down by industry and geography might disclose individual data which could be inappropriate);

(b) gross exposure to carbon-related industries by industry, total gross exposure to all industries, and percentage of total gross exposure for each carbon-related industry (as per ISSB Protocol Appendix B16);

(c) amount and percentage of carbon-related assets relative to total assets (per the TCFD 2021 Implementation Guidance and ISSB Protocol Appendix B16);

(d) percentage of gross exposure included in financed emissions calculation (as per ISSB Protocol Appendix B16);

(e) emissions intensity and gross exposure, for each industry by asset class (as per ISSB Protocol Appendix B16); and

(f) amount of lending and other financing connected with climate-related opportunities (per the TCFD 2021 Implementation Guidance).

43. For other sectors, members support reference to increasing international guidance from the TCFD, IFRS TRWG prototype and ISSB Protocol, but consider this should all remain non-binding guidance until capacity develops in New Zealand and internationally (and anticipating there may be further adjustments to international guidance). For example, NZBA members are considering the ISSB's detailed sector-specific guidance for commercial banks released on 31 March 2022.

Scope 3 emissions

Question 9: We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?

44. For banks, Scope 3 emissions are largely comprised of:

(a) scope 3 emissions from banks' own operations (eg employee commuting, business travel, waste, and emissions of suppliers); and

(b) most significantly, scope 3 financed emissions from lending and investments (eg scope 1 – 3 emissions of banking customers).

45. Members support the introduction of a banking industry specific metric: scope 3 financed emissions. This aligns with the TCFD's 2021 Guidance, which recommended that banks disclose GHG emissions for their lending and other financial intermediary business activities where data and methodologies allow, and calculated in line with the PCAF Standard or a comparable methodology (see TCFD 2021 Implementing Guidance, Table 2, p 50).

46. However, New Zealand banks face two particular challenges to calculate scope 3 financed emissions:

    (a) New Zealand banking customers are themselves often not yet able to report their own greenhouse gas emissions – for example many small to medium businesses (**SMEs**) are not currently measuring their emissions and do not have the capacity or capability to do this. Members are acutely aware of these information gaps as they are working specifically with their customers to better understand and measure their emissions. Business lending and agricultural lending are particularly affected.

    (b) There is insufficient aggregated sector-level data for banks to assess scope 3 financed emissions for certain asset classes. For example, banks cannot access aggregated or averaged data showing energy consumption of SMEs or residential properties, nor can they readily obtain that information from individual borrowers at present. For example, members have sought to use MfE Industry totals,[6] but this was unworkable due to the highly aggregated nature of that data.

47. Members recognise that the PCAF Standard is increasingly well-known and assists in understanding how to deal with data quality issues, in particular because it allows reporting entities to publish a "PCAF score" between 1 –5 which indicates the quality of the data available. A PCAF score of 1 indicates that audited GHG emissions data or actual primary energy data is available, a PCAF score of 2 indicates that non-audited GHG emissions data is available, a PCAF score of 3 indicates that averaged data that is peer or sub-sector specific is available, etc.[7] Most NZBA members will need to include some quantity of modelled data, so will be unlikely at least in the first few years of the regime, to be able to attain the highest PCAF score. NZBA endorses the XRB's proposal that its Guidance would cite the PCAF Standard as an (albeit not exclusive or static) internationally accepted methodology.

48. However, in many cases reporting aligned with PCAF is still not decision-useful because even sector-level aggregated data is not yet available in New Zealand.

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6 Ministry for the Environment. 2020. *Measuring Emissions: A Guide for Organisations: 2020 Detailed Guide*.

7 Partnership for Carbon Accounting Financials "The Global GHG Accounting and Reporting Standard for the Financial Industry" (first edition) 18 November 2020, online at https://carbonaccountingfinancials.com/standard p39-40.

49. In order to address these data concerns, NZBA supports the following practical solutions:

(a) In the absence of actual emissions data a list of emissions factors should be published by Government for use by reporting entities. For example, emissions factors could be set at ‘emissions per dollar of revenue’. At the most simplest level there could be one emissions factor provided per ANZSIC code division. ANZSIC codes are commonly used across the New Zealand business landscape and this approach would enable more consistency and comparability among disclosures.

(b) Guidance issued by XRB could also identify more specific data sets that banking sector reporting entities will need access to in order to report on financed emissions. These include: (i) aggregated data drawing on energy efficiency ratings on homes; (ii) specific or aggregated energy use data derived from smart meters on homes; and (iii) farm gate emissions data which is required under the Climate Change Response Act (subject to the outcome of He Waka Eke Noa). NZBA considers that the Government could support these disclosures regime by enabling: (i) through legislation and regulation, the provision of emissions data sets for specific sectors where these are held by government agencies or by entities in other regulated sectors; and (ii) education and capability development for businesses seeking to report their own GHG emissions.

(c) Guidance should also recognise that where there is insufficient information for even an estimation to be made, or where no internationally accepted methodology exists to calculate financed emissions for a particular asset class, the lack of these disclosures, with appropriate explanations, does not mean a reporting entity is failing to comply with the Standard.

50. Finally, banks anticipate that they will apply a materiality threshold to financed emissions – for example, they will only report on financed emissions for material portfolios, particularly in early years. It would be useful for Guidance to reflect that this is likely to be an appropriate approach.

51. NZBA would welcome the opportunity to develop banking sector-specific guidance with the XRB to assist in clarifying what is required for reporting entities to satisfy their disclosure obligations.

Assurance of GHG emissions disclosures

Question 10: Paragraphs 8, 9 and 10 contain specific requirements relating to the disclosure of GHG emissions to facilitate the conduct of assurance engagements in line with the requirement of section 461ZH of the Financial Markets Conduct Act. Do you have any observations or concerns about these proposed requirements?

52. NZBA supports the requirement that reporting entities must prepare a GHG emissions report to support their disclosures of GHG emissions.

53. Members prefer not to be required to produce a stand-alone GHG emissions report for those members that see this as of limited utility to primary users: this should be at reporting entities' discretion.

54. It would be useful for Guidance to clarify whether a bank's scope 3 financed emissions (which will be the vast bulk of its emissions) should be discussed in detail in its GHG emissions report (including PCAF assumptions) or in its Climate Statements.

Metrics and Targets defined terms

Question 11: Do you have any views on the defined terms as they are currently proposed?

55. NZBA comments on the following defined terms:

(a) "***Vulnerable to***": The phrase "*vulnerable to*" is included in Metrics Disclosures 4(c) and 4(d). A definition which provided some guidance as to what is considered "*vulnerable to*" would assist with consistency and comparability between reporting entities. Specifically, the banking sector would appreciate guidance as to whether this is based solely on customers' exposure to risk, or whether it also incorporates customers' capacity to respond to risk.

(b) "***Whether the target is science-based***": The definition and application of "science-***based***" has evolved over time. NZBA seeks guidance as to what XRB considers to be "science-based" and whether this aligns with the Science Based Targets Initiative.

(c) "***Gross emissions***": The definition of "*gross emissions*" specifies that gross scope 2 emissions must be calculated using the "*location-based methodology*" (which reflects the average emissions intensity of grids, using grid-average emissions factor data). This does not allow reporting entities to calculate Scope 2 emissions in accordance with the alternative "*market-based methodology*" (also recognised in the GHG Protocol Scope 2 Guidance),[8] which allows entities to reflect emission factors from electricity they have specifically selected, and which might be generated from renewable sources. NZBA considers this specification of location-based methodology for scope 2 emissions should be removed.

Metrics and Targets Adoption Provisions

Question 12: The XRB has proposed not providing first-time adoption provisions for the Metrics and Targets section of NZ CS 1. Do you agree? Why or why not?

56. Summarising the above, NZBA proposes the below additional adoption provisions for Metrics and Targets:

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[8] Greenhouse Gas Protocol "GHG Protocol Scope 2 Guidance: An amendment to the GHG Protocol Corporate Standard" online at https://ghgprotocol.org/sites/default/files/ghgp/standards/Scope%202%20Guidance_Final_0.pdf

Proposed Metrics and Targets Disclosures	**NZBA submission**
Metrics and Targets Disclosure 4(a)	Some members are supportive of mandatory reporting on scope 3 financed emissions **(Metrics and Targets Disclosure 4(a)**) (as far as they are able on present data) from Year 1. However, there are also some members that would prefer to see an adoption provision to require this reporting instead from Year 2, in order to allow capability to develop in New Zealand consistent with the emergence of globally conforming standards, including access to, for example, energy use benchmarks and / or emission factors across key lending portfolios (eg. SMEs and residential properties) which is not presently available). NZBA otherwise supports the disclosure in Year 1 by the banking sector of scope 1 and 2 emissions, and of scope 3 emissions other than financed emissions.
Metrics and Targets Disclosure 4(f)	NZBA proposes an additional adoption provision for reporting of capital expenditure, financing or investing (in NZD) deployed towards climate related risks and opportunities (**Metrics and Targets Disclosure 4(f)**). Propose to delay mandatory reporting of this metric to Year 2, because of the connection between these disclosures and the publication of Transition Plans.
Comparative information not required for Year 1 (see Consultation Document, para 7.3)	NZBA supports XRB's proposal that no comparative information will be required for Year 1. This should be extended so that in Year 2, only one year of comparative information is required, with the full two years required from Year 3 onwards.

Assurance

Question 13: The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?

57. Support. NZBA would be concerned if a higher level of assurance was set given (a) capacity constraints on reporting entities; and (b) the limited capacity presently in the assurance sector.

Materiality

Question 14: The XRB has proposed a definition of material (Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of their assessments of an entity's enterprise value across all time horizons, including the long term). Do you agree with this definition? Why or why not?

58. NZBA is generally supportive of the Standard adopting a proposed materiality definition which aligns as far as possible with existing definitions of materiality. While the proposed definition of 'materiality' is not identical to the definition used in a standard accounting context, the concept of information that "*could reasonably be expected to influence decisions that the primary users make*" is reasonably orthodox and is aligned with the XRB's approach to general purpose financial statements. Given that the disclosures are partially qualitative, it may also be useful to consider alignment with s 57 of the Financial Markets Conduct Act 2013, which governs the disclosure of material information to the market, and guidance as to whether a similar approach is contemplated.

59. Members support the XRB's proposal not to adopt a double materiality standard, for the reasons set out in the consultation document.[9]

60. However the proposed materiality definition includes components that introduce potential subjectivity into the materiality assessment on which further Guidance is welcomed:

(a) The focus on "*enterprise value*" could be interpreted to suggest that reporting entities are not required to consider non-financial risks and opportunities which have an impact on primary users' decisions. Guidance will be essential to assist reporting entities to understand whether particular risks/opportunities are material if they do not have an immediate impact on enterprise value.

(b) Assuming enterprise value is still used within the definition, NZBA proposes the Standard adopt the much shorter definition of "enterprise value" from the ISSB Protocol, namely that enterprise value is "*the total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt".* The existing draft language could be incorporated within Guidance.

(c) The proposed definition requires consideration of primary users' assessment of enterprise value "*across all time horizons, including the long term*". Because the express reference to the "*long term*" is specific to climate-related reporting (rather than financial statements), NZBA

[9] As explained in the Consultation Document, double materiality captures both the material impact of climate change on the entity, and the entity's impact on climate change. TCFD and the ISSB Protocol focus solely on the former, although recognising of course that the entity's GHG emissions must be disclosed.

members would appreciate Guidance on how significant the long-term assessment is expected to be in a materiality assessment.

(d) If the Standard reflects the ISSB language that the proposed Strategy Disclosures should focus on "***significant*** *climate-related risks and opportunities*", NZBA welcomes confirmation that this qualifier is also relevant for entities when considering whether a particular risk or opportunity is material. Otherwise there is a risk that the Standard is only requiring disclosure of "significant" risks, which might be a smaller sub-set of risks that might otherwise still be identified as "material".[10]

Question 15: Do you have any other comments on the proposed materiality section?

61. Nil.

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[10] The ISSB Protocol does not appear to address this potential inconsistency. The XRB's comparison document indicates that it considers materiality is sufficient on its own to ensure that only significant risks and opportunities are disclosed, but we do not agree that this is clear on the face of the draft Standard.