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## Submission on Assurance over Climate-related Disclosures: occupational regulation and expanding the scope of assurance

The Institute of Directors (IoD) appreciates the opportunity to comment on the two issues related to the assurance requirements in the climate-related disclosures regime.

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. The IoD is also 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”.

### Key points

- We continue to **support climate-related disclosures and the development of the standards, regulatory framework and professional capability and competence to support the new reporting regime**. It is important that the regime enables effective, meaningful reporting that helps drive strategic thinking and change rather than merely compliance. It is critical important to ensure that requirements are not overly burdensome, costs are outweighed by benefits, and that adequate timeframes are provided along with clear guidance, support and education.

### About the Institute of Directors

The Institute of Directors (IoD) is New Zealand's pre-eminent organisation for directors, and is at the heart of the governance community. We have over 10,500 members connected through our regional branch network and national headquarters. 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.

- We support the introduction of an occupational licensing regime for climate-related disclosure (CRD) assurance practitioners with the Financial Markets Authority (FMA) as we consider that it will provide greater trust and confidence in the climate statements for directors, as well as for those wishing to access them. Whether through a co-regulation or a direct regulation model, it will be important to provide support to build the capability and capacity of CRD assurance practitioners and the ongoing monitoring and review of professional standards.
- While supporting the disclosures, we recommend that the timeframe for the preparation and assurance of climate statements, should the scope of assurance requirements expand, be changed to 6 months. Developing the capability and capacity of the newly-formed CRD assurance practitioner sector will have a significant impact on the ability of climate-reporting entities (CREs) to meet the proposed extended reporting requirements. Similarly, the extent to which this will further impact on the ability to report on scope 3 emissions in particular, and the efficacy of the information able to be provided to CREs also needs to be considered. It is noted that there is scarce information about the additional cost of obtaining assurance over the full climate statement, and further analysis or information should be sought to better understand the potential impacts, to ensure the benefits continue to outweigh the costs.

## 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.

To this end, we made submissions on the amendment bill, as well as all three rounds of consultation by the External Reporting Board (XRB) on the disclosure standards:

- Amendment Bill: [Submission on the Financial Sector \(Climate-related Disclosures and Other Matters\) Amendment Bill](#)
- 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 \(Strategy and Metrics and Targets\)](#)
- Consultation Round 3: [Submission on Climate-related Disclosure Standards Exposure draft](#)

## Issue 1: Developing a licensing regime for assurance practitioners

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (CRD Act) introduced a new climate-related disclosures regime in New Zealand. The CRD Act contains an assurance requirement that comes into force in October 2024 with disclosures in climate statements relating to greenhouse gas (GHG) emissions (only) to be independently assured. Expanding the scope of the assurance requirement to cover the full climate statement is also part of the current consultation document (Issue 2), and this will be covered separately below.

As it stands, there are no licensing arrangements for CRD assurance practitioners in the CRD Act, and neither are there any processes for dealing with complaints or monitoring their work. Assurance standards are by their very nature highly technical and a high level of expertise will be needed to ensure that the assurance is

conducted to the appropriate standards. It will take time to build assurance capability and competency following the development of reporting systems, controls and capability.

Consequently, there is a risk that individuals who are not appropriately skilled or subject to satisfactory professional standards could carry out the assurance engagement. If un-skilled CRD assurance practitioners carry out the assurance engagement this may reduce confidence in the practitioners and in the information that they assure. Moreover, regardless of whether a practitioner is suitably skilled or not, knowing that there is no standard or monitoring could still undermine the trust and confidence in the reporting regime.

Accordingly, we consider that the licensing regime is justified because it will promote greater trust and confidence in the climate statements and in the reporting regime as a whole. It will, however, be important to build the CRD assurance practitioner sector and to ensure that there is sufficient capability and capacity. This will provide confidence in the assurances given and to CREs to meet the reporting requirements and timeframes.

Equally, ongoing monitoring, review, education and support to confirm that CRD assurance practitioners are meeting and maintaining the appropriate professional standards will also be important allowing ongoing trust and confidence as well as cost-effective, efficient and beneficial service provision to CREs.

## **Issue 2: Options for expanding the scope of assurance requirements**

The CRD Act contains an assurance requirement that comes into force in October 2024. The CRD Act currently limits independent assurance of the disclosures to those relating to GHG emissions only (with assurance standards issued by the XRB). The proposal is to expand the scope of the assurance requirement to cover all disclosures in the climate statement from October 2028, with the XRB empowered to stagger the introduction of assurance requirements prior to this date, but not before 2025. Disclosures fall into four thematic pillars: governance, strategy, risk management, and metrics and targets. Of note, GHG emissions is only one section of the metrics and targets. It also includes industry-based metrics, key performance indicators and targets, and performance against targets.

We agree that assurance over the full climate statement would support greater trust and confidence in the climate statements. In our submission on the CRD standards exposure draft, we acknowledged that the assurance approach proposed may need to be strengthened in the future. There remain, however, a number of important matters that require further consideration in making this decision.

### **2.1 Implementation date**

It is noted that a key reason for the proposed implementation date of October 2028 is to allow time for the occupational licensing regime to commence, however, it needs to have more than commenced. As noted above, there needs to be sufficient capability and capacity within the CRD assurance practitioner sector to meet demand. It is essential that capability in climate-related reporting and assurance is developed and supported to enable an effective reporting regime. The exact timing, especially if earlier staggering is introduced, should be considered alongside the post-implementation review (refer 2.2 below).

### **2.2 Post-implementation review**

The proposal is for assurance over the full climate statement to be implemented by October 2028 at the latest, with the option for a staggered introduction by the XRB before this date (but not before 2025). To support confidence in the new regime it is recommended that no additional assurance requirements are introduced until at least after the XRB have undertaken their post-implementation review of NZ Climate Standards 1 – 3 (anticipated to begin December 2025). The learnings from this review process would be critical in informing

assurance requirements and processes and for any recommendations from the FMA to be implemented by CREs.

### **2.3 Timing of returns**

Another critical element of timing, is that the CRD Act requires statements within four months after the balance date of the entity (461Z). The four month timeframe is for assurance over GHG emission disclosures only. In our submission on the CRD Bill we recommended that the timeframe should be five to six months due to the timing, resourcing and practicalities of also having to produce audited financial statements. If the scope of the assurance requirements were to expand, we recommend that this should be extended to six months. As the expansion requires new legislation, proposed for enactment in 2025, the change to the deadline for lodging of climate statements could be undertaken as part of this.

### **2.4 Assurance of scenario analysis**

In our submission on the Amendment Bill, we suggested that a transition period should be provided in the Bill, with a phased approach, that focuses initially on entities disclosing qualitative information on governance, strategy and risk management, and later on providing the scenario analysis disclosures. We considered this important to enable boards to deepen their understanding of the new reporting regime and have an appropriate level of oversight to ensure they understand how scenario analysis works and its strategic implications. This generally seems to align with the XRB's 'Basis for Conclusions on NZ CS 1 Climate-related disclosures' BC36, where it notes the building of sophistication over time. Accordingly, any assurance regime needs to reflect this. The submission from the Office of the Auditor-General on the exposure draft noted that (page 8) "Scenario analysis is challenging and potentially costly to undertake". Due to the complex nature of scenario analyses, assurance of them has the potential to be costly, yet no analysis of costs has been undertaken. Further consideration needs to be given to developing the understanding of and confidence in the scenario analyses, as well as determining potential costs.

### **2.5 Cost benefit analysis**

It is acknowledged in the consultation document that, due to climate assurance standards for disclosures based on Task Force on Climate-related Financial Disclosures (TCFD) recommendations still being under development and uncertainties over assurance practitioner market developments by 2028, there is insufficient information about the additional cost of obtaining assurance over the full climate statement. Nonetheless, further analysis around potential costs needs to be undertaken to ensure that a cost benefit analysis can form part of the decision-making. A key element of cost also relates to time – time required to undertake the necessary work, not just in preparing the climate standards, but in working with the assurance practitioners. Additionally, it is anticipated that there will be significant time required of entities that are not CREs, but that provide services and products to CREs to enable reporting on scope 3 emissions.

### **2.6 Efficacy of data**

For most CREs, scope 3 is where the most material emissions data risks and opportunities lie. Therefore, it is important for entities and primary users to understand these risks and opportunities. Similarly, we also consider that it is important for an entity to understand all of its scope 3 emissions in order to develop a credible transition plan.

Nonetheless, it is acknowledged that there are significant data and methodological challenges associated with calculating scope 3 GHG emissions. Concerns remain over the veracity of scope 3 emissions data and the ability of these entities to provide data that meets assurance standards. While the non-financial assurance market is expected to evolve considerably, smaller entities and the reliance on data from scope 3 entities may slow down the expected pace of change. This means the ability of all entities in the reporting line, not just the CREs, needs to be taken into account.

## 2.7 Internal audit and processes

Like auditing financial statements, assurance over the full climate statement promotes consistency and comparability, supports board confidence, and provides an independent opportunity to identify issues and make recommendations. However, to enable assurance over the full climate statement, internal assurance systems will also need to be implemented. To evaluate and assure the quality and relevancy of the climate statement data and other information, CREs must have a robust system of policies, processes, and internal controls in place. To provide boards with confidence in the reliability of these systems and the information generated requires oversight and assurance independent from management, including effective governance structures and systems of internal controls; this also needs to be taken into consideration when determining timeframes.

## Conclusion

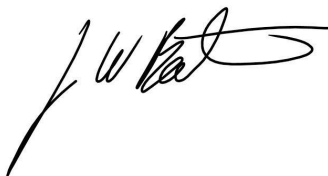
Like financial reporting, external assurance plays a key role in contributing to reporting reliability, consistency, comparability, trust and confidence. However, the evolution of the International Standards on Auditing has been an iterative process since the 1970s. Similarly, when describing the shift towards requiring assurance over ESG statements, the International Auditing and Assurance Standards board stated: “This will be a journey, and some level of patience is needed. ... Building a mature reporting and assurance ecosystem for sustainability will not happen overnight.”

Boards are increasing their focus on understanding the risks and opportunities arising from environmental, social and governance (ESG) factors and their impact on profitability and performance. These factors have begun to directly influence financial markets – evidenced by a positive correlation between the share price and good sustainable practices, indicating the significance of investor influence on share price, stakeholder awareness, and the importance of high-quality information and transparency.

In November 2022 the United Nations High Level Expert Group on the Net Zero Commitments of Non-state Entities released its [report](#) with recommendations for businesses and financial institutions on how to avoid greenwashing and build integrity when setting net zero commitments. One of their five overarching principles is “established credibility through plans based in science and third-party accountability”. In recommendation 8 – Increasing Transparency and Accountability – a timeline for mandatory independent evaluations is included as a key action for demonstrating best practice governance.

We consider that independent assurance of climate statements from licensed CRD assurance practitioners will further enhance confidence and trust and reduce the risk of greenwashing. However, support, education and guidance needs to be provided, along with sufficient transition periods and preparation time, to allow the reporting systems to be developed and grow in maturity, and to build the capability and capacity of CRD assurance practitioners.

Ngā mihi nui



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