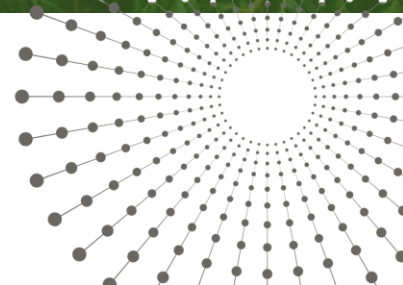
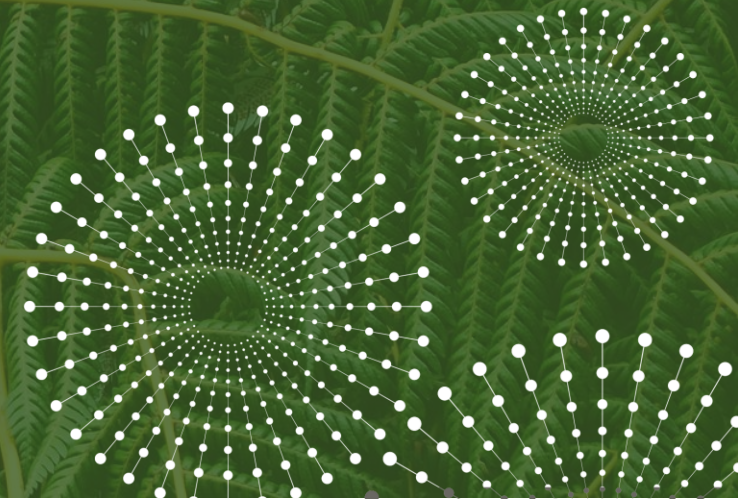


Aotearoa New Zealand Climate-related Disclosures

Director Preparation guide

May 2022



1.

Introduction

This guide is intended to provide directors with a quick reference for key things they need to know about Aotearoa New Zealand's forthcoming climate-related disclosures regime.

It provides an overview of the current status of the climate-related disclosures framework. It also outlines some of the key considerations and best practice areas for directors to consider as they prepare for their governance role in relation to climate-related disclosures. It is not intended to be comprehensive and includes links to more detailed supporting information.

We recommend that directors and their management teams stay up to date with the climate-related disclosures framework as it evolves. The [XRB website](#) and the [FMA website](#) have all the latest information.

A step closer towards a low-emissions future and a cleaner safer planet for future generations

Aotearoa New Zealand's climate-related disclosures framework intends to ensure the impacts of climate change are actively considered in business and investment decisions and that entities demonstrate accountability and foresight in relation to climate-related risks and opportunities. This should lead to a smarter, more efficient allocation of capital, and help smooth the transition to a more sustainable, low-emissions economy.



Who needs to report?

Entities that are required by the climate-related disclosures legislation to produce climate statements will be known as climate reporting entities (CREs). The following entities are CREs: →

Approximately 200 CREs are expected to disclose in the first year of reporting. If there is any uncertainty as to whether an entity is a CRE, we recommend getting independent legal advice, and if there is still any remaining uncertainty, speaking with the FMA.

\$60m+
Market capitalisation

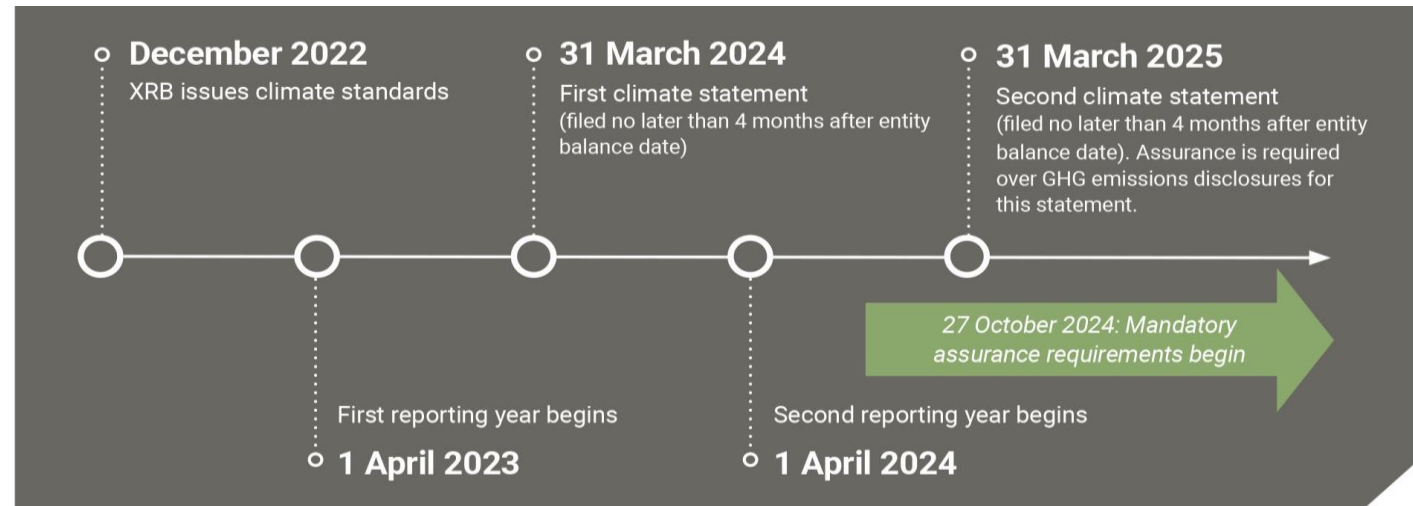
Large listed issuers with a market capitalisation exceeding \$60 million

\$1b+
Total assets

Large financial entities, including banks, insurers and managers of investment schemes with total assets exceeding \$1 billion

*See Part 7A of the Financial Markets Conduct Act 2013 for more specific definitions of CREs.

When does reporting start? *Example timeline for an entity with a 31 March balance date*

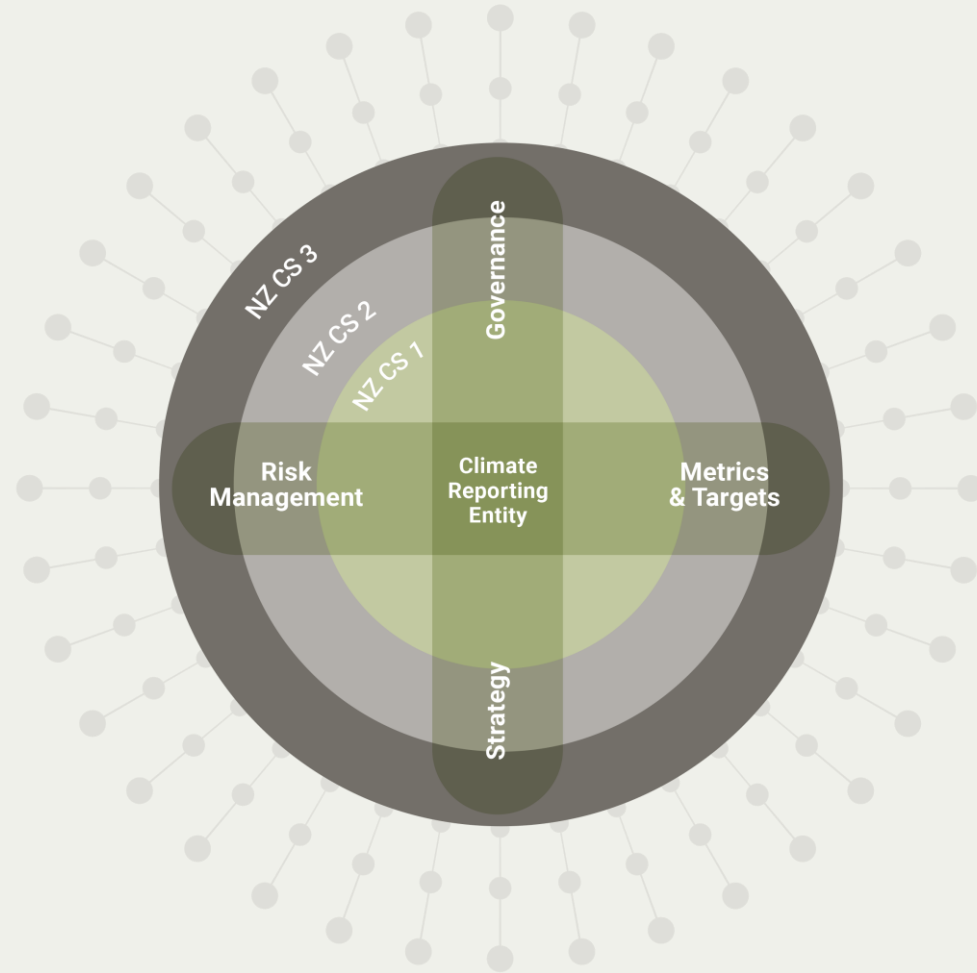




2.

The Aotearoa New Zealand Climate-related Disclosures Framework

Aotearoa New Zealand Climate Standards (NZ CS) 1, 2 & 3 work together as a package. NZ CS 1 details the specific disclosure requirements, NZ CS 2 provides minimum disclosure requirements for first time adoption, and NZ CS 3 provides the principles and general requirements that must be considered across all disclosures.





Governance

The Governance section is about enabling primary users (existing and potential investors, lenders and other creditors) to understand both the role an entity's governance body (e.g., a board, or an investment committee) plays in overseeing climate-related risks and climate-related opportunities, and the role management plays in assessing and managing those climate-related risks and opportunities.

The proposed disclosures focus on the directors' role, as part of the entity's governance body, in providing oversight of climate-related risks and opportunities. The proposed disclosures include asking how the governance body considers climate-related risks and opportunities when developing and overseeing implementation of an entity's strategy, and how the governance body ensures that the appropriate skills and competencies are available to provide oversight.

Risk Management

The Risk Management section is about enabling 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.

Directors will need to have a good understanding of both transition and physical risks and, in relation to the proposed Strategy disclosures, how identified risks will impact the entity's business model, strategy and financial planning.

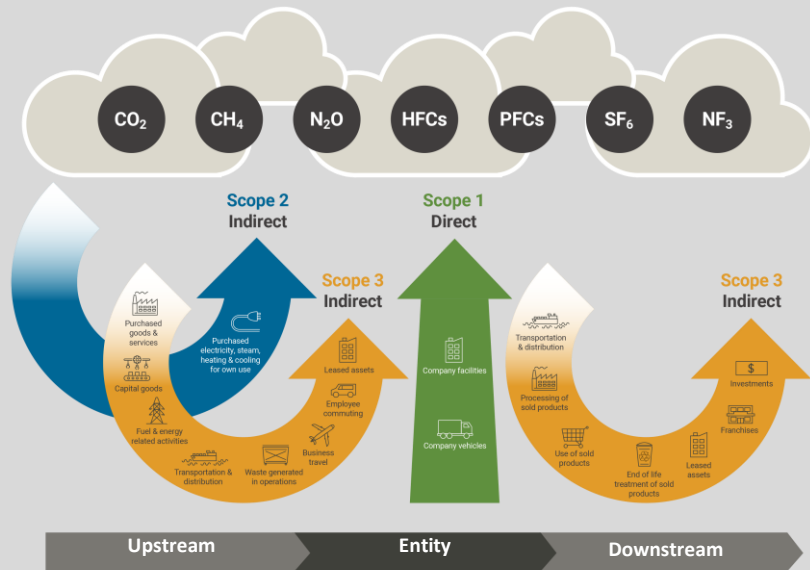
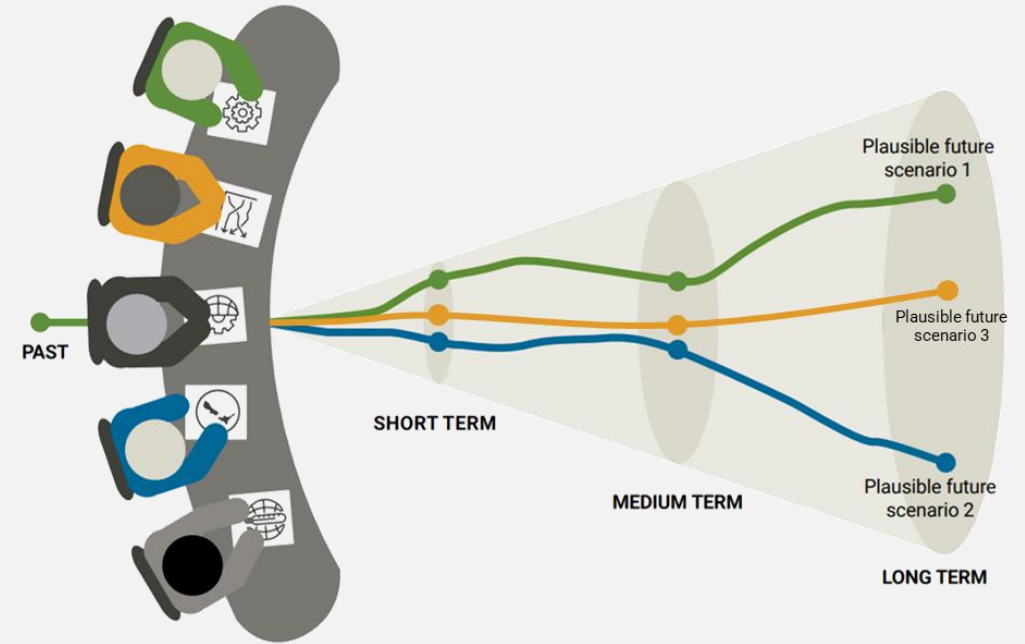
This integration of climate-related risks into existing risk management processes is important and will require directors to get more familiar with climate risk terminology. This includes concepts like hazard, vulnerability and exposure, which are a fundamental part of the way the Intergovernmental Panel on Climate Change talks about existing and future climate-related risk.

4.

Strategy

The Strategy section is about enabling primary users to understand the impacts of climate-related risks and opportunities on the entity's business model, strategy and financial planning.

This section contains the proposed disclosure requirements to identify climate-related risks and opportunities (both transition risks like policy, reputational and market shifts, and physical risks like extreme weather events). It also contains the proposed disclosure requirements around scenario analysis. Directors can read the XRB's [two pager on scenario analysis](#) to get familiar with what it is and isn't, and what the specific intent of scenario analysis is within this regime.



Metrics and Targets

The Metrics and Targets section is about enabling primary users to understand how an entity measures and manages its climate-related risks and opportunities.

One of several metrics identified in this section are the proposed disclosure requirements around greenhouse gas (GHG) emissions. Legislation requires these to be assured. Directors should understand how an entity can get [started on measuring its emissions](#), and ways to reduce an entity's emissions footprint.



First-time adoption provisions

NZ CS 2 will provide CREs with options for phased adoption of some of the disclosure requirements in NZ CS 1. CREs may choose to apply options available to them and if they do so, must disclose their use. Directors should consider whether these options are suitable for their CRE to deploy.

The XRB proposed first-time adoption provisions relating to some of the Strategy disclosures, and heard significant feedback about the potential for first-time adoption provisions relating to some of the Metrics and Targets disclosures, as part of its March 2022 consultation. The XRB will take on board the feedback received and will propose a revised set of first-time adoption provisions in the exposure draft of NZ CS 2 in July 2022.

General requirements and principles

NZ CS 3 establishes principles and general requirements to enable the provision of high-quality climate-related disclosures that are useful to primary users for their decision making. These must be considered when disclosing using NZ CS 1 and NZ CS 2.

The proposed standard is centered on the principle of fair presentation and includes several other principles that entities must consider, including relevance, balance and accuracy. It also contains a proposed definition of materiality. NZ CS 3 proposes that all disclosures are subject to materiality and that materiality is defined in relation to an entity's enterprise value. Directors are strongly encouraged to become familiar with the proposed materiality requirements in NZ CS 3 and their implications for reporting.

6.

Responsibilities

Directors

Oversight

Directors play a critical role in providing high-level strategic oversight of an entity's climate-related disclosures. The intent is that directors consider the regime in the wider context of their entity's purpose, strategy and operations, over the short, medium and long term.

Importantly, this means that directors should be considering climate-related risks and opportunities in an integrated way with relevant aspects of their entity's strategy and operations.

Specific requirements

The CRD legislation also identifies specific requirements of directors in relation to the climate-related disclosures framework. These include:

- Dating and signing on behalf of the entity, the entity's climate statement or group climate statements;
- Complying with applicable climate standards (with directors individually liable on conviction to imprisonment for a term not exceeding 5 years, a fine not exceeding \$500,000, or both); and
- Providing information and explanations to assurance practitioners relating to GHG emissions.

Entities

CREs are required to:

- Prepare an annual climate statement that discloses information about the effects of climate change on their business or any fund they manage;
- Prepare climate statements in accordance with climate standards issued by the XRB;
- Obtain independent assurance about the part of the climate statement that relates to the disclosure of GHG emissions;
- Make the climate statements available to the public; and
- Comply with record-keeping requirements.

Standard setting Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

The XRB is responsible for setting the disclosure requirements against which CREs must report. The disclosure requirements are contained in mandatory standards, and the XRB will also produce non-mandatory guidance to help CREs disclose against the standards. The XRB is intending to continue with its work increasing awareness relating to climate-related disclosures into 2023 and beyond.

To read more on Climate-related Disclosures [click here](#).
To contact our Climate-related Disclosures Team [click here](#).

Monitoring



The FMA is responsible for independent monitoring and enforcement of the climate-related disclosures regime, providing guidance about compliance expectations, and reporting on monitoring activities and findings.

The FMA envisages taking a broadly educative and constructive approach, with a focus on issuing high-level guidance on compliance expectations in the early stages, moving to a proactive regulatory role as the climate-related disclosures regime becomes established.

To read the implementation approach [click here](#).
To contact our Climate-related Disclosures Team [click here](#).