LAWYERS FOR
CLIMATE ACTION NZ INC.

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2 May 2022

External Reporting Board
Climate-related Disclosures Project Steering Group
Level 7, 50 Manners St
Wellington

Re: Climate-related Disclosures Strategy and Metrics and Targets Consultation Document

1 Lawyers for Climate Action NZ Inc. (**LCANZI**) thanks the External Reporting Board (**XRB**) for the opportunity to make this submission on the Climate-related Disclosures Strategy and Metrics and Targets Consultation Document (**Consultation Document**).

2 In general terms, we support the work of the XRB and the draft sections on Strategy and Metrics and Targets as part of the proposed standard, Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (**NZ CS 1**) that have been outlined in the Consultation Document. However, we make specific recommendations to further improve transparency and stimulate the required shift in investment flows and broader decision-making to address the risks of climate change.

3 Below, we summarise our six key submissions. We provide further detail on our submissions in the Appendix to this letter:

a. **Scenario analysis: Require, at a minimum, three scenarios to be used in scenario analysis, being: 1) a 1.5°C scenario; 2) a greater than 2°C scenario; and 3) a "pessimistic but plausible" reference scenario (which would currently be 3.2 °C by 2100):**

LCANZI supports the inclusion of both a 1.5°C scenario (on the basis that it is consistent with New Zealand's statutory target) and a greater than 2°C scenario.

But, given the Intergovernmental Panel on Climate Change (**IPCC**) has just confirmed[1] the planet is still currently on track for 3.2°C, LCANZI submits that NZ CS 1 must also require a third scenario with a higher trajectory of future greenhouse gas concentrations to be used to support more comprehensive testing of the resilience of an entity's strategy. If the third "pessimistic but plausible" scenario is not mandated, businesses will naturally be incentivised to focus only on scenarios which will not overly stress their business and will underestimate the potential impacts (in particular, physical impacts) on them. That will mean they and their stakeholders risk being underprepared for one of the very realistic potential outcomes.

<u>Recommendation</u>: LCANZI recommends that a third scenario is mandated, which reflects the most pessimistic plausible pathway as described by the IPCC as updated from time to time. That would currently be [RPC 8.5] SSP 5-8.5 (but may change based on future IPCC reports). LCANZI also strongly supports the proposed requirement that *climate reporting entities* (**CREs**) must disclose the methodologies and assumptions underlying the climate-related scenarios used, and the scenario analysis process employed, to support transparency and comparability.

b. **Expand the scope of materiality to encompass double materiality:**

We note that the XRB are proposing to define *material* using the lens of enterprise value, and that the XRB considers this approach sets a solid foundation that can be

[1] IPCC Intergovernmental Panel on Climate Change, Climate Change 2022: Mitigation of Climate Change, Working Group III contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change

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built upon, including to introduce double materiality, in the future. However, LCANZI considers materiality must also refer to the impact on the planet.

Recommendation: LCANZI recommends that:

i. The XRB introduce the concept of double materiality into NZ CS 1 from the outset, to ensure that CREs disclose not only the material impact of climate change on the entity, but also the entity's material impact on climate change.

ii. The definitions of *climate-related risks* and *climate-related opportunities* be expanded to include the risk of CREs further contributing to climate change through the externalities created by their own activities, and the opportunities for CREs to contribute towards mitigating climate change or offering adaptation solutions to customers through their own activities.

c. **Expand the definition** of **primary users to encompass a wider range of stakeholders:**

The XRB are proposing the following updated definition of *primary users*: "existing and potential investors, lenders and other creditors":

We support the inclusion of creditors in this definition but not the deletion of insurance underwriters, and generally, consider that the definition is still too narrow to give effect to the core purposes of the Act.

Recommendation: LCANZI recommends that the XRB revert the deletion of insurance underwriters in the definition of *primary users* and, in addition, expand the definition to include a wider range of stakeholders (and at a minimum, specifically include employees, suppliers and customers) on the basis that providers of financial capital should not be privileged over others who have a direct financial interest in the CRE.

d. **Transition plans: Require that transition plans be tied to a publicly stated target:**

LCANZI strongly supports the proposed requirement for CREs to disclose the transition and adaptation plan aspects of its strategy, including the extent to which financial plans are aligned with these plans. However, the XRB are not proposing to require transition plans to be tied to any particular emissions reduction target such as net zero emissions and/or emissions reductions consistent with global 1.5°C pathways, but that entities will be free to disclose this if they have done so.

Recommendation: LCANZI recommends that the XRB require all CREs' transition plans to include an emissions reduction target selected by the CRE, and to disclose the transition and adaptation plan aspects of its strategy against that target.

e. **Provide and advocate for further support for cross-sector collaboration on the creation of sector-level scenario analysis:**

The XRB are actively encouraging industry sector members to come together to create sector-level scenario analysis in advance of the standard becoming effective. We note that we consider it would have been preferable if a single government agency (such as the Reserve Bank of New Zealand (**RBNZ**)) had been given the responsibility under the Act to publish the required scenarios as well as the general analysis of the broader physical and social outcomes expected under each scenario (which CREs could then use to analyse the impact on its specific business). However, we accept that Government failed to provide for that, and the XRB is stepping up, within its limited mandate, to encourage the private sector to fill the gap.

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While we strongly applaud the XRB for taking on this role, our concern is that, without proper guidance, the outputs of sector-level scenario analysis are likely to overlap significantly, particularly with respect to the funds management, banking and insurance sectors with other sectors such as manufacturing, agriculture and property. Conflicting perspectives and incentives, and the natural tensions of competitors means this is unlikely to lead to coherent and consistent scenarios and outcomes.

Recommendation: LCANZI recommends that the XRB provide detailed additional guidance on how these sector-level initiatives can be coordinated in a way which ensures consistent scenarios and analysis, and also provide guidance on the extent to which CREs should approach scenario analysis as a "stress test" by including scenarios consistent with higher transition risks (e.g., a 1.5°C scenario) in the near to medium term (e.g., 2030 and 2040) and scenarios consistent with greater physical risk (e.g., the "pessimistic but plausible" scenario) in the longer term (e.g., 2050 and beyond). LCANZI further recommends that XRB report to its responsible Minister of the risk that voluntary guidance may not be sufficient.

f. **GHG emissions: Set the minimum level of assurance for GHG emissions at limited assurance and require disclosure of scope 3 value chain emissions as part of this standard:**

LCANZI strongly supports the XRB's proposal that the minimum level of assurance for GHG emissions be set at limited assurance and the proposed requirement that CREs disclose their gross scope 1, scope 2, and scope 3 (value chain) emissions in metric tonnes of CO2 e. LCANZI also supports the XRB's proposal to revisit the level of assurance after a suitable period, once the assurance regime has commenced (from 27 October 2024) to ensure that limited assurance remains fit for purpose and to engage with the possibility of uplifting the minimum standards to reasonable assurance, if appropriate.

4 Please see the Appendix for further elaboration on each of these submissions. LCANZI would be delighted to have the opportunity to discuss directly with XRB why we believe that it is vitally important that each of our recommendations is adopted in the final NZ CRS 1 if New Zealand is going to give effect to the objectives of the new climate-related disclosures regime.

5 To discuss this further, please contact me on +64 21 786 172 or by email (Lloyd.Kavanagh@minterellison.co.nz).

Signed on behalf of Lawyers for Climate Action NZ Inc. by Lloyd Kavanagh, Board Member:

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SUBMISSIONS

1. Introduction

1.1 Lawyers for Climate Action NZ Inc. (LCANZI) is a non-profit group of over 400 lawyers and associate members. We advocate for legislation and policies to ensure Aotearoa New Zealand meets or exceeds its commitment under the Paris Agreement to achieve net zero carbon emissions as soon as possible and no later than 2050. More information about us can be found on our website: https://www.lawyersforclimateaction.nz/.

1.2 We welcome the opportunity to provide feedback on the Consultation Document.

1.3 This submission to the XRB follows on from LCANZI's previous submission on the Governance and Risk Management Consultation Document (November Submission), and LCANZI's written and oral submissions to the Economic Development, Science and Innovation Select Committee in relation to the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Act). Those earlier submissions are available here and here. We request that the XRB reads this submission together with, and in the context of, those earlier submissions, and we note that we specifically refer to the November Submission at several points below.

2. Scenario analysis: Require, at a minimum, three scenarios to be used in scenario analysis, being: 1) a 1.5°C scenario; 2) a greater than 2°C scenario; and 3) a "pessimistic but plausible" scenario (which would currently be 3.2°C by 2100)

2.1 It is important to recall that the Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015 by the Basel-based Financial Stability Board (FSB), in part out of a concern that major financial institutions and other entities were having insufficient regard to potential climate impacts and its implications for financial stability. If NZ CS 1 is to be true to its origins in the TCFD Recommendations, it must not shy away from requiring consideration of a sufficiently "pessimistic but plausible" scenario, to stress test entities.

2.2 In this context it is highly relevant that the IPCC recently reported that "without a strengthening of policies beyond those that are implemented by the end of 2020, GHG emissions are projected to rise beyond 2025, leading to a median global warming of 3.2 [2.2 to 3.5] °C by 2100"[2].

2.3 Accordingly, we support a 1.5°C scenario because this is consistent with New Zealand's statutory target set out in the Climate Change Response (Zero Carbon) Amendment Act 2019 (Zero Carbon Act). We also agree a "greater than 2°C" scenario is also useful and can be considered somewhat consistent with the TCFD Recommendations (which set a 2°C or less scenario).

2.4 However, LCANZI submits that a third "pessimistic but plausible" high physical risk scenario must be mandated and that this should align with the IPCC projections (i.e., 3.2°C by 2100) if further policies are not implemented.

2.5 While the currently proposed greater than 2°C scenario enables a CRE to use a scenario of much higher warming (e.g., 3.2°C), LCANZI considers that competitive pressures are likely to incentivise CREs to adopt the lower end of this scenario (e.g., a 2.1°C scenario), because:

[2] IPCC Intergovernmental Panel on Climate Change, Climate Change 2022: Mitigation of Climate Change, Working Group III contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, p. 22.

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a. choosing low change scenarios will indicate less impact on the CRE's business, making it easier to integrate with existing business strategies;

b. no CRE will want to be the outlier in its sector publishing a scenario that is potentially more damaging to its business model, than its competitors with broadly comparable businesses; and

c. a high physical risk scenario is the scenario that would likely present the greatest stress to CREs. Accordingly, a CRE is disincentivised to engage in the riskier scenario (especially when its competitors are not) because that scenario is likely to get disproportionate attention from users, particularly if it is the only CRE in the market that has this scenario in its climate statement, in which case it could undermine its competitive position and create a first mover disadvantage.

2.6 As a result, both mandatory scenarios recommended in the Consultation Document will result in outcomes that are at the very low end of the IPCC's projections of the level of warming the earth is likely to face in reality. Accordingly, they will by their nature involve lower physical risks in the short, medium and long term than other, equally plausible scenarios.

2.7 Accordingly, LCANZI submits that the "pessimistic but plausible" high physical risk scenario must be mandated for the following reasons:

a. The scenario we are recommending be mandated as a third scenario is not far-fetched, indeed it is the more likely future state given the policies currently being implemented[3].

b. It is vital that CREs engage with a "pessimistic but plausible" scenario that involves high physical risks, in order to be prepared for the future state that is currently the most likely outcome. Failure to do so (which is more likely if not mandated) would undermine the utility of climate statements for primary users because it would not give them information about plausible, even likely, future scenarios that the CRE may be faced with and how the CRE will manage the stresses involved in the high physical risk scenario. Primary users will therefore be unable to make informed decisions about the CRE. CREs need to engage with the reality of what stresses could affect their businesses if the world is not successful in keeping global warming to a physically safe level.

c. this "pessimistic but plausible" scenario will need to be assessed across the long-term time horizon, in order to be to be relevant and challenging (as required by the TCFD). The long-term time horizon, as well as the unprecedented nature of the physical risks in this scenario, makes it the most technically difficult scenario to engage with, which reduces the incentive to do so voluntarily.

d. As explained above at paragraph 2.5, each CRE will be naturally disincentivised to engage in a more "pessimistic but plausible" high physical risk scenario than its competitors, so it is unlikely a challenging scenario would be voluntarily adopted.

e. There is a significant risk of the market overall being misled if CREs overall adopt less pessimistic scenarios than are warranted by the science.

f. As pointed out above, one of the reasons the TCFD was founded by the FSB was because there was a concern that the impact of climate change was being systemically

[3] IPCC Intergovernmental Panel on Climate Change, Climate Change 2022: Mitigation of Climate Change, Working Group III contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, p. 22.

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underestimated. Unless the "pessimistic but plausible" high physical risk scenario is mandated, that may well be the outcome.

2.8 The XRB has already commented in the Consultation Document that it is "cognisant of the debate regarding the value of exploring some of the upper end high physical risk scenarios". LCANZI submits that the XRB should act to address this important issue, to ensure CREs take into account the range of potential climate change impacts on them, and that external stakeholders are not misled by the selection of only benign scenarios.

2.9 There is also a co-benefit of a mandated high physical risk scenario in that, if CREs do engage with the reality of the stresses that their organisation might plausibly face if the world is not successful in keeping global warming to a physically safe level, this might act as a driver for CREs to increase their ambition in their transition plans to help minimise the likelihood of this plausible future state occurring, which can, in turn, help to achieve the Act's purposes as well as the goals set out in the Zero Carbon Act and the Paris Agreement. In contrast, if CREs only engage with highly optimistic scenarios, their governance, risk management, strategy and metrics and targets might be unduly optimistic about the real risks that the CRE could plausibly face in the future and provide little incentive to make changes at the scale that is required.

2.10 As a further point, we submit there is benefit in three or more scenarios. The TCFD have noted that while the use of only two scenarios may be a practical way to start, the drawback to using only two scenarios includes a tendency to interpret one as "good" for the company and one as "bad", introducing a bias into the scenario analysis.[4] Most scenario methodologies recommend three or four scenarios.[5]

2.11 Accordingly, we submit that NZ CS 1 must include a third mandatory scenario which is a scenario based on a benchmark such as the IPCC's plausible but most pessimistic scenario as published and updated from time to time.[6] Currently that is the very high GHG emissions scenario, [RCP 8.5] SSP 5-8.5, as published by the IPCC in the Sixth Assessment Report, Climate Change 2021: The Physical Science Basis, published in October 2021[7]. That equates to the pathway that the IPCC recently reported the planet is on without a strengthening of policies beyond those that are implemented by the end of 2020 (i.e., a median global warming of 3.2°C by 2100).

2.12 This high-emissions scenario is frequently referred to as "business as usual", suggesting that is a likely outcome if society does not make further concerted efforts to cut greenhouse gas emissions. To be clear, it is not an unlikely or unduly pessimistic scenario. In the future, the IPCC may either select more or less challenging scenarios as the reality of climate change plays out over the coming years, and CREs should update the scenarios to reflect that progression. That allows for the scenarios used to response to science-based analysis of the progress being made.

2.13 Accordingly, LCANZI would support a definition of the "plausible but pessimistic" scenario to refer to the most pessimistic IPCC scenario "as updated from time to time" or provide for some other mechanism to regularly review the most pessimistic scenario on the following basis:

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[4] 2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf (bbhub.io)

[5] Amer, Daim and Jetter, A review of scenario planning, 2013; Haigh, Scenario Planning for Climate Change: A Guide for Strategists, 2019; Ralston and Wilson, The Scenario Planning Handbook: Developing Strategies in Uncertain Times, 2006; Lindgren and Bandhold, Scenario Planning: The Link Between Future and Strategy, 2009; Van Der Heijden, Scenarios: The Art of Strategic Conversation, 2010.

[6] Our preference is for scenarios to reference the IPCC's analysis which is widely accepted as the leading authority on climate research. That said, there are a number of other credible alternative "plausible but pessimistic" scenarios that could be drawn from, including from the Independent Energy Authority or the Network for Greening the Financial System.

[7] https://www.ipcc.ch/report/sixth-assessment-report-working-group-i/

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a. LCANZI is hopeful that as mitigation efforts continue, the most pessimistic IPCC scenario might become less pessimistic over time and it would be appropriate for the pessimistic scenario to follow suit; and

b. LCANZI recognises that the most pessimistic scenario may involve the largest number of changes as time goes on and the scientific analyses that predicts the details of this scenario improves.

3. Expand the scope of materiality to encompass double materiality

3.1 The XRB proposes to introduce a definition of *material* that does not exclude the possibility of double materiality being introduced and implemented at a later stage, but also does not expressly require CREs to include in their climate statements:

a. any material risks that a CRE is contributing to climate change through its GHG emissions or by enabling its suppliers or customers to emit more GHG (e.g., through directly funding emissions intensive activities); or

b. any material opportunities the CRE has available to it to mitigate climate change by: (i) reducing its own GHG emissions; (ii) offering products and services that enable customers to reduce GHG emissions; and/or (iii) offering products or services that are adaptation solutions for customers.

3.2 LCANZI submits that the requirement to disclose scope 1, 2 and 3 gross GHG emissions and a transition plan (both of which LCANZI strongly support) by design requires a CRE to disclose any material risk that a CRE's business is contributing to climate change. Given that inevitability, LCANZI submits that the XRB should, at the outset, introduce the concept of double materiality to its definition of *material*. This will mean CREs have guidance on how to translate information about their impact on climate change (that they are already indirectly required to give through disclosure of GHG emissions and a transition plan) into information that is more understandable, comparable and therefore usable to primary users.

3.3 LCANZI wishes to re-iterate the following additional reasons for introducing double materiality to NZ CS 1:

a. It maximises the comparability of New Zealand climate statements with the climate statements that may be released by EU entities under the proposed Corporate Sustainability Reporting Directive, which enhances the international comparability of New Zealand climate statements and, in turn, assists New Zealand CRE's in attracting international capital.

b. It is in-line with the high-water mark of climate disclosures globally which is consistent with the XRB's stated goal of creating an ambitious regime.

3.4 For completeness, LCANZI also wishes to re-iterate the point raised in its November Submission that introducing the concept of double materiality would require the definitions of *climate-related risks* and *climate-related opportunities* to be expanded to include the "risk of CREs further contributing to climate change through the externalities created by their own activities" and "the opportunities for CREs to contribute towards mitigating climate change through their own activities".

4. Expand the definition of primary users to encompass a wider range of stakeholders

4.1 The XRB proposes changes to the definition of *primary users* to now:

a. include "other creditors". LCANZI strongly supports the inclusion of creditors which we assume will include depositors at CREs that are banks, credit unions or building

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societies. Creditors clearly have a significant economic stake in the businesses they invest in, lend to, or are otherwise exposed to, and should be considered by CREs in the preparation of their climate statements; and

b. exclude "insurance underwriters". LCANZI strongly opposes that exclusion. We understand that it was proposed on the basis of submissions that insurance underwriters "have alternative means of access to corporate information while performing their duties" and that including insurance underwriters may risk climate-related disclosures being "seen as unique and separate to business financial performance". We consider that logic does not stand up to review. The Act itself makes clear that Parliament considers that climate-related risks and impacts may not be adequately captured in traditional disclosures in relation to business performance. Having CREs consider the interests of insurers in the preparation of their climate-related disclosures will not only benefit those insurers, but also other parties who may have a direct interest in the same issues.

4.2 More fundamentally, LCANZI submits that even with the inclusion of creditors, the *primary users* definition remains too narrow and still does not give effect to the core purposes of the Act. That is because, as outlined in our November Submission, it does not recognise that other users (in particular, suppliers, customers and employees) can have a material impact on:

a. ensuring that the effects of climate change are routinely considered in business decisions;

b. helping CREs better demonstrate responsibility and foresight in their consideration of climate issues; and

c. contributing to a smarter, more efficient allocation of capital (through customer purchasing decisions or decisions on whether to work for, or supply to, a CRE and, if so, on what terms) and help smooth the transition to a more sustainable, low-emissions economy.

4.3 Climate statements may be substantially less effective in facilitating meaningful changes to a CRE's governance, risk management, strategy and metrics and targets in a way that achieves the above purposes (as well as targets committed to in the Paris Agreement and the Zero Carbon Act) if CREs are not required to prepare climate statements in a manner that holds them accountable to other key stakeholders, in particular customers, suppliers and employees.

4.4 We also re-iterate the following rationales we raised in our November Submission:

a. A wider definition makes NZ CS 1 more usable by a wide range of organisations (in particular, not only for-profit businesses), maximising the prospect of widespread voluntary uptake or minimising the changes needed if the regulatory perimeter of CREs expands.

b. An expanded definition remains consistent with the Task Force on Climate-Related Financial Disclosures (**TCFD**) Recommendations, which acknowledge that "other stakeholders" that will have an interest in the disclosures made in climate statements.

c. Climate statements may contain information that is directly about interest groups such as suppliers and customers as part of the value chain, and it follows that they have a direct interest in the climate statements.

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4.5 On that basis, LCANZI re-iterates its recommendation that the definition of *primary users* be expanded to existing and potential investors, lenders, insurance underwriters, other creditors, suppliers, customers, employees and any other person that the CRE knows to have a direct financial interest in the CRE's business and activities.

5. Transition plans: Require that transition plans be tied to a publicly stated target

5.1 LCANZI commends the XRB for including a requirement for CREs to disclose its transition and adaptation plan in its strategy disclosures, including the extent to which financial plans are aligned with these plans and strongly encourages the XRB to retain this requirement in its finalised draft of NZ CS 1.

5.2 Transition and adaptation plans are at the heart of achieving the purposes of the Act, the goals set out in the Paris Agreement and the statutory targets set out in the Zero Carbon Act. There can be no transition to a net zero economy or to a world where global warming is limited to 1.5°C without transition plans to achieve this, and there can be no assurance that any business or CRE will have the capability to adapt their activities to plausible future states (whether that be a net zero emissions economy or a vastly changed physical environment) without an adaptation plan. There can be no doubt that these plans need to be at the heart of a CRE's strategy going forward and primary users need to have visibility over these plans to understand how the CRE's business will look going forward and make appropriate decisions in response to that information.

5.3 However, LCANZI does not understand how a transition plan can be said to exist without being tied to some kind of target – what is the CRE transitioning *to* if there is no target? Accordingly, our view is that any plan is not a transition plan unless the CRE can point to a specific future state (that is, a target) that it intends to reach through its transition plan.

5.4 Accordingly, in order to make the disclosed transition plan a true transition plan and a useful transition plan, LCANZI submits that the transition plan must be pegged against a publicly stated emissions reduction target of the CRE's choice.

6. Provide and advocate for further support for cross-sector collaboration on the creation of sector-level scenario analysis

6.1 The XRB is actively encouraging industry sectors to come together to create sector-level scenario analysis in advance of the standard becoming effective. The XRB have also noted they are developing industry-specific guidance (particularly with respect to financial sector entities) in relation to the strategy section. LCANZI's view is that it would be better if, instead of the XRB encouraging industry sectors to come together independently of one another, there was a government agency that took responsibility for designing the required scenarios and providing some data and modelling about the expected physical and social outcomes of different scenarios over different horizons. This would help to ensure that there is appropriate cross-sector collaboration, given the risks and opportunities of climate change are cross-cutting, and to minimise duplication of work.

6.2 The RBNZ has experience designing "stress tests" (which essentially is a scenario analysis) as part of its role as the prudential regulator of registered banks and licensed insurers. Indeed, we understand that the RBNZ is working towards designing a "climate stress test" for registered banks over the next 18 months. Further, the RBNZ is a member of the Network for Greening the Financial System, who have designed a number of industry-specific scenarios that could be drawn from. Ideally, the expertise that the RBNZ is developing should not need to be duplicated by the private sector. At the very least RBNZ should publish its scenarios so that they are accessible to all CREs, not only the banks and insurers supervised by them.

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6.3 However, we understand that the XRB is limited in its mandate, given a government agency was not delegated responsibility for designing the scenarios. Accordingly, we commend the XRB for the work it intends to undertake to facilitate industry collaboration and recommend that XRB maximise the guidance that it gives CREs on how to collaborate to create industry-specific scenarios, such as:

a. guidance on the sorts of time horizons that are most appropriate to use to ensure that the scenarios are relevant and challenging (per TCFD Recommendations) and reflect the reality that one of the purposes of a scenario analysis is for the CRE to essentially undertake a stress test. On that basis, the scenarios that are most helpful to understand the potential impact of stress factors on the CRE's business is the "limited warming scenarios" (1.5°C and 2°C) being conducted over a short to medium term horizon and the "high physical risk scenario" being conducted over a long-term horizon; and

b. guidance on conducting effective stakeholder engagement to support sector-level scenario development;

c. guidance on how to best leverage relevant existing work on scenario development both domestically and internationally; and

d. guidance on developing underlying assumptions (including socio-economic, technology and policy) and methodology for sector-level scenario analysis that are reflective of sector overlap to support consistent and comparable approaches cross-sector. This should include guidance on best practice time horizons to use in the underlying climate-related scenario methodology, given shorter time horizons (i.e. within the next decade) will not identify the extent of physical impacts that can be seen in climate models that deliver scenario results for physical impacts beyond 2050. The TCFD have noted that in setting climate-related scenario time horizons it is important that entities challenge their thinking about traditional planning horizons, which are often too short. The TCFD notes that "scenario time horizons that are too short may result in simple extrapolations of current thinking and trends, and therefore not reveal the information needed to assess the resilience of the company's climate-related strategy".[8]

6.4 Finally, we recommend that, in light of the above, the XRB brief its responsible Minister of the limitations of an approach that requires the private sector to design their own scenarios in-house.

7. GHG emissions: Set the minimum level of assurance for GHG emissions at limited assurance and require disclosure of scope 3 value chain emissions as part of this standard

7.1 LCANZI recognises that the current level of non-financial assurance across the full range of CREs is likely to be low and predominantly focused on GHG emissions. Accordingly, LCANZI agrees that limited assurance is a suitable starting level for mandatory assurance requirements over GHG emission disclosures and other disclosures beyond GHG emissions. Furthermore, LCANZI supports the XRB's proposal to revisit the minimum level of assurance for GHG emissions after a suitable period of time, once the assurance regime has commenced.

7.2 LCANZI recommends that the XRB should commit to a review of the level of assurance in three years to assess whether limited assurance remains fit for purpose or whether the

[8] 2020-TCFD_Guidance-Scenario-Analysis-Guidance.pdf (bbhub.io)

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minimum level of assurance needs to be upgraded to reasonable assurance. The XRB may wish to signal this review to CREs.

7.3 LCANZI strongly supports the requirement to disclose gross scope 3 emissions (as well as gross scope 1 and 2) and strongly recommends that this be retained in the XRB's final draft of NZ CS 1. Scope 3 emissions are likely to be the core source of emissions for most CREs (except potentially some publicly listed issuers of equity and debt) and the purpose and utility of climate statements would be substantially undermined if scope 3 emissions were not required. While we appreciate that scope 3 emissions can be the most difficult to determine, our view is that the time is right for CREs, as New Zealand's largest organisations, to begin building that capability.

7.4 LCANZI would support CREs being entitled to disclose any offsetting activities that reduce its net emissions (on an optional basis), but strongly recommends retaining the requirement for gross emissions to be clearly disclosed (whether or that that gross number is supplemented with a net number to account for offsets) to incentivise the reduction, not the offsetting, of GHG emissions by CREs. This is consistent with the purposes of the Act and with best available science, such as reported by the IPCC, that strongly emphasises the imperative of reducing emissions and not overly relying on offsetting emissions.

8. Final comments

8.1 LCANZI is happy to meet with the Climate-related Disclosures Project Steering Group to discuss any aspect of our submission. To discuss this further, please contact:

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