



Climate change reporting obligations

A new frontier for internal controls

13 November 2023

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Matthew Cowie

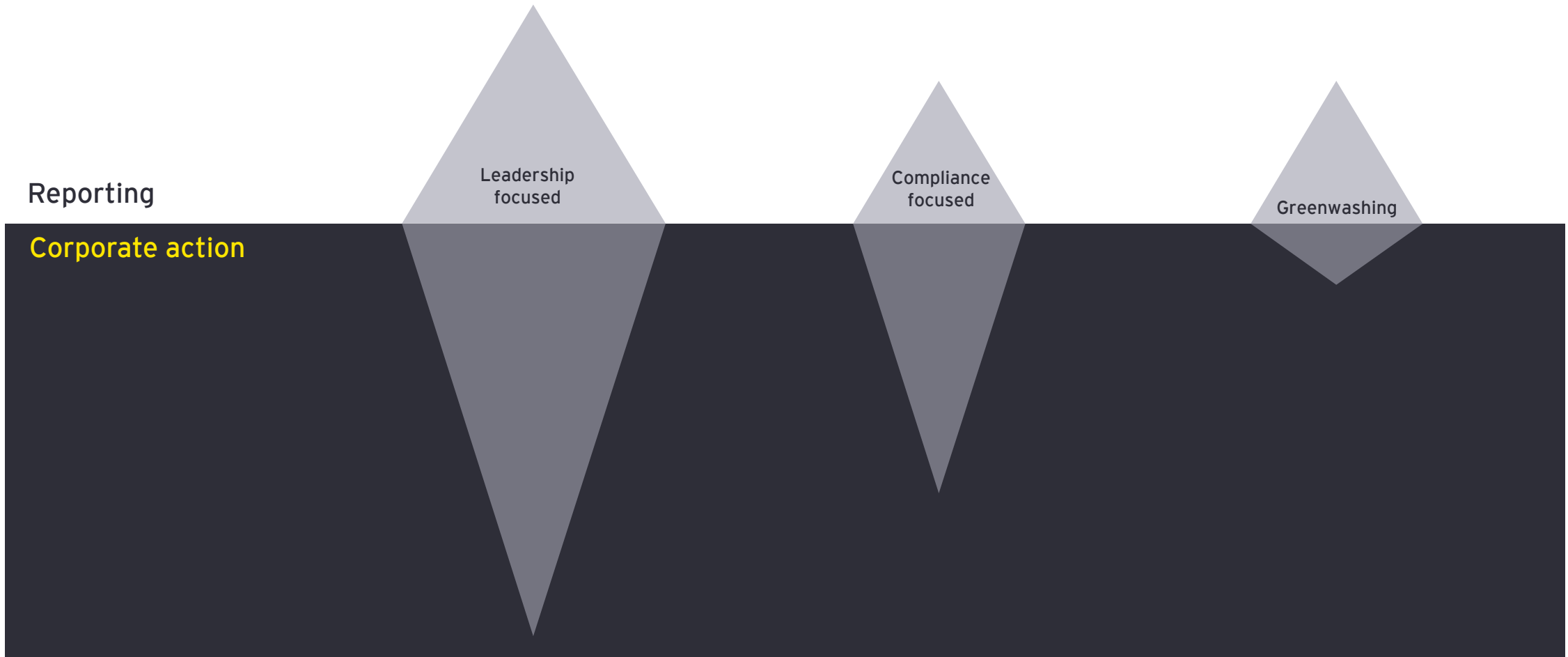
Partner, Climate Change and Sustainability Services
Ernst and Young, New Zealand



What is sustainability reporting?



Reporting and corporate action



Potential corporate reporting objectives



The objectives of sustainability reporting

An entity is required to disclose information about its **sustainability-related risks and opportunities** that is useful to primary users of **general purpose financial reports** in making decisions relating to providing resources to the entity.



Why is sustainability-related financial information disclosed?

An entity's sustainability-related risks and opportunities arise from the entity's interactions, throughout its value chain, with:

- ▶ Its stakeholders
- ▶ Society
- ▶ The economy
- ▶ The natural environment

These interactions take place within an interdependent system in which an entity both:

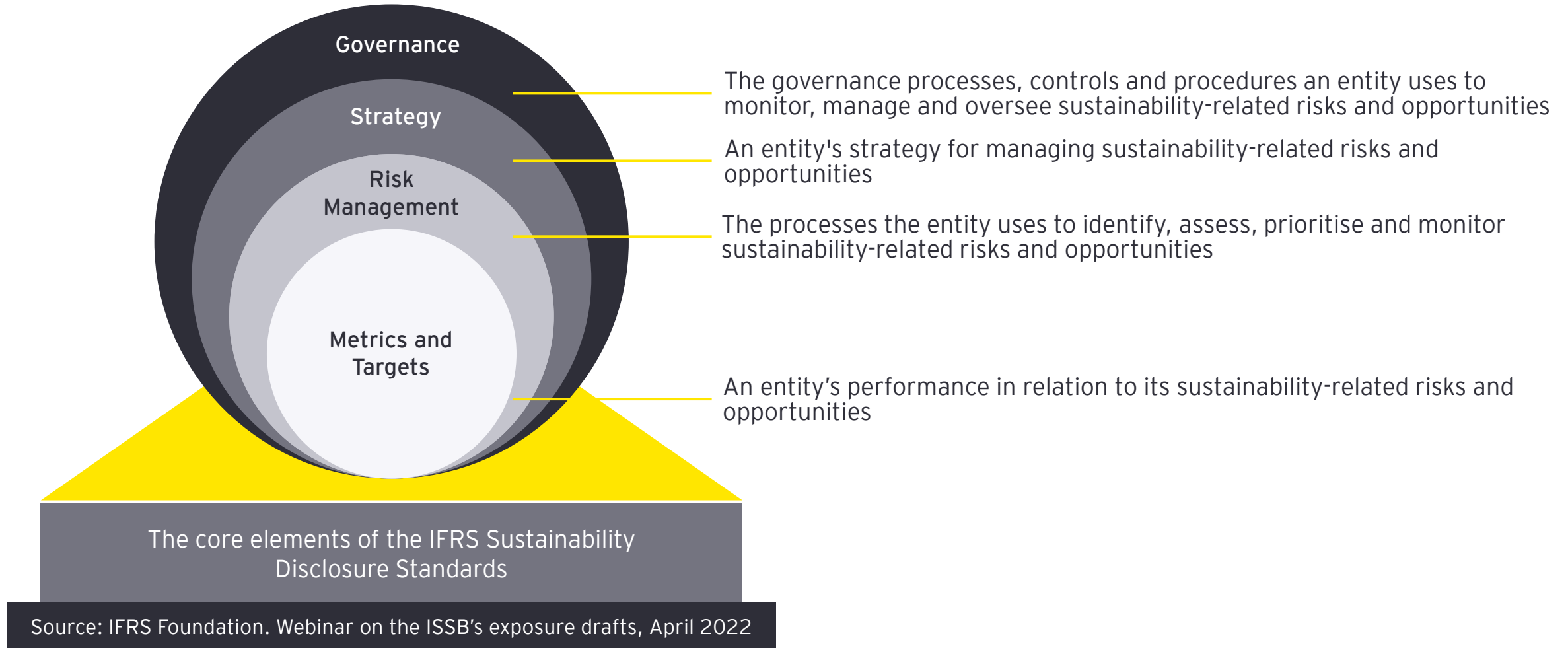
- ▶ Depends on resources and relationships throughout its value chain to generate cash flows
- ▶ Affects those resources and relationships through its activities and outputs

An entity's ability to generate cash flows over the short, medium and long term is therefore inextricably linked to those interactions.

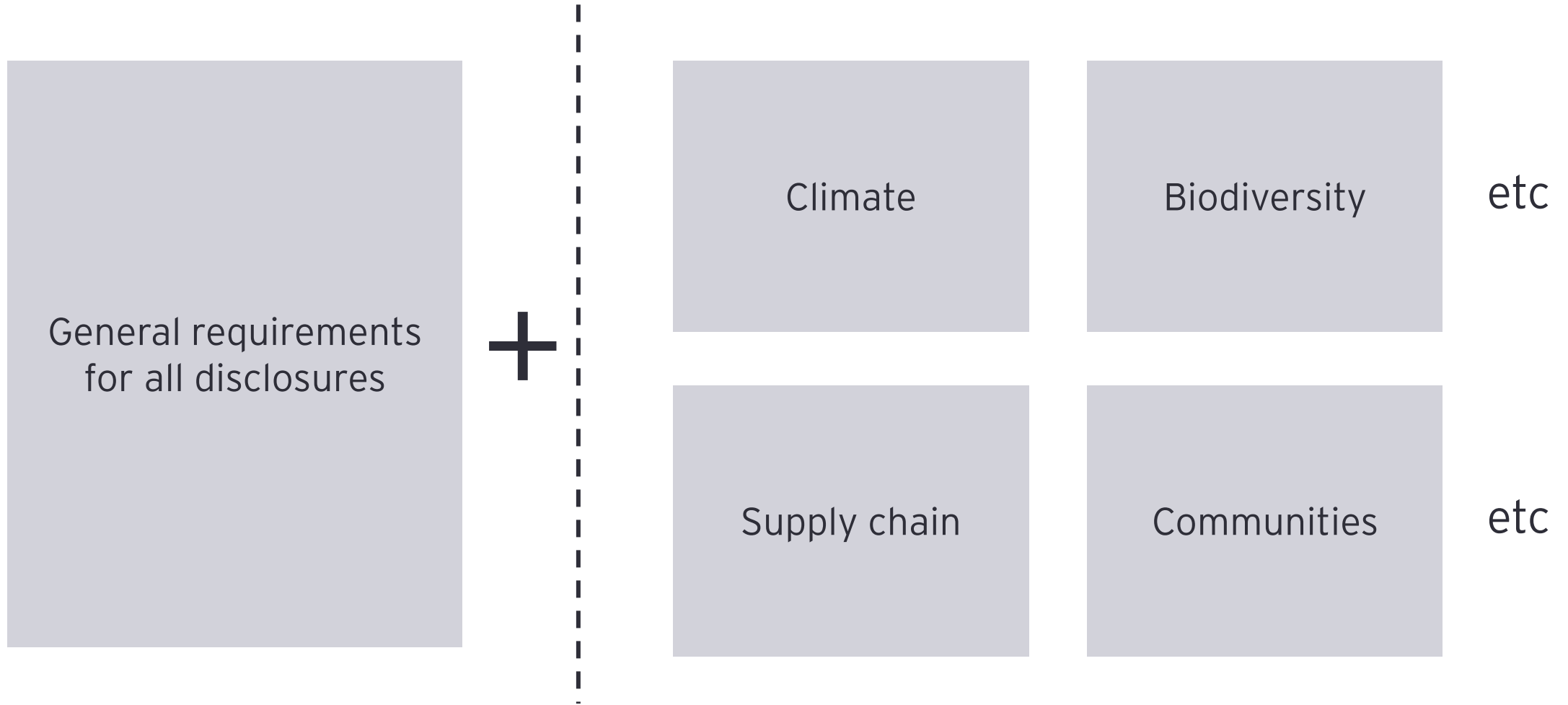
Climate change reporting frameworks



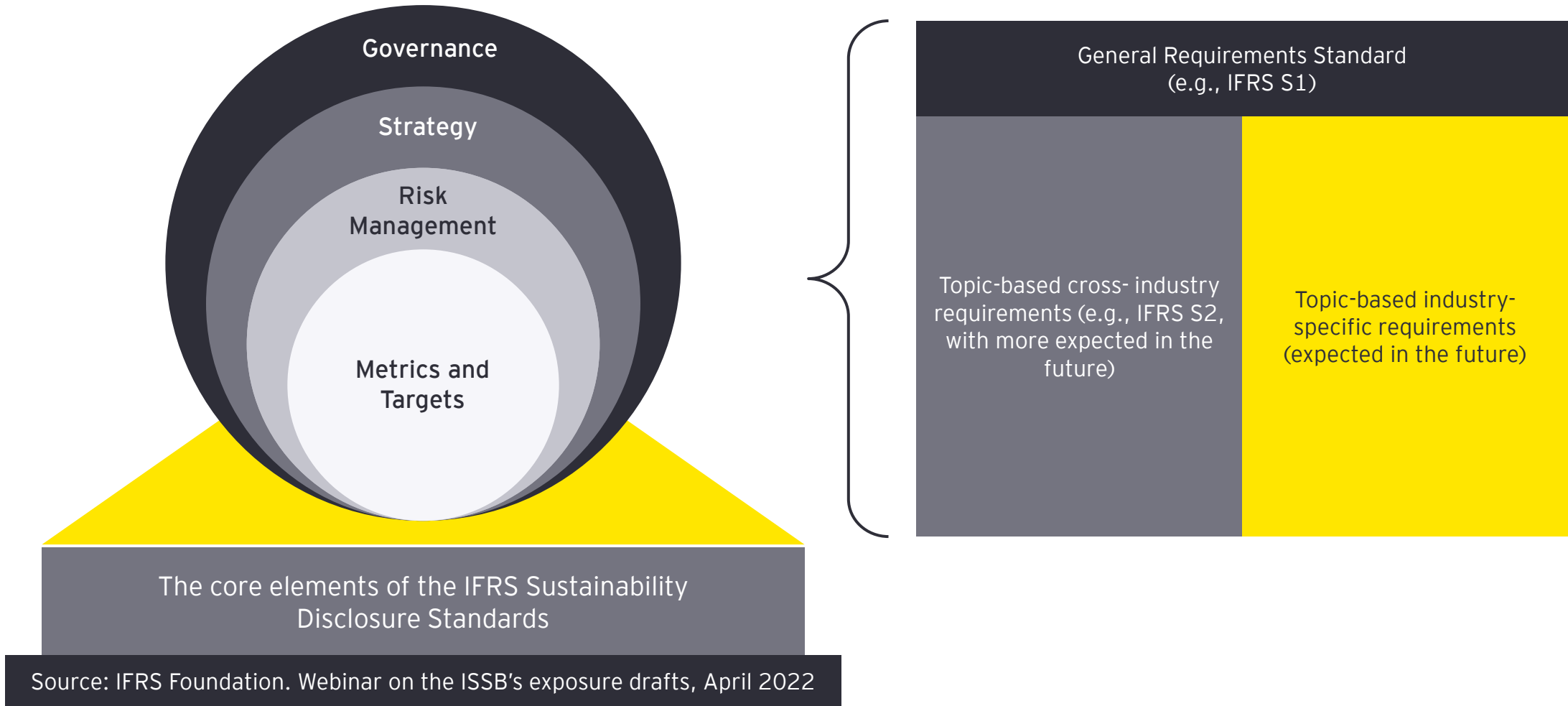
The core elements of sustainability reporting



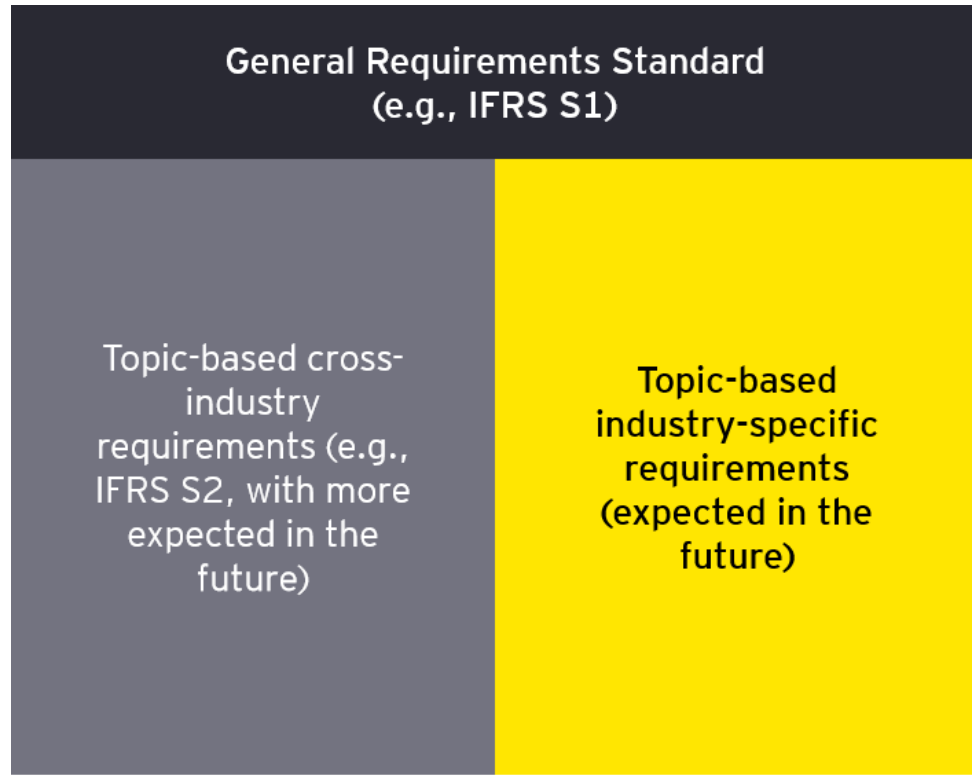
Emerging structure of sustainability reporting



The structure of ISSB (1)



The structure of ISSB (2)



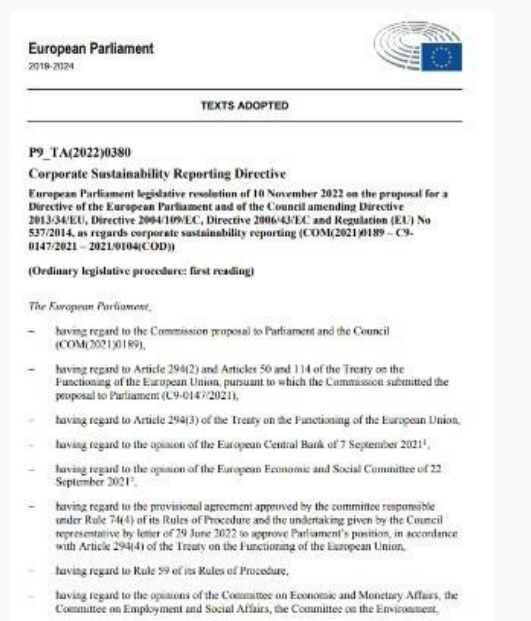
The four core elements are used across IFRS Sustainability Disclosure Standards.



Core concepts in S1 are to be applied in combination with S2 (e.g., mentality, aggregation of information and location of disclosure, Etc.)

EU Corporate Sustainability Reporting Directive (CSRD)

Level 1 - Corporate Sustainability Reporting Directive (CSRD)



Level 2 - European Sustainability Reporting Standards (ESRS)

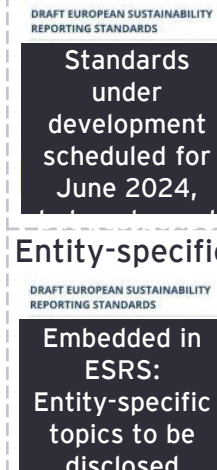
Cross-cutting



Topical sector-agnostic



Sector-specific



Source: EFRAG

- ▶ On 22 November, the European Financial Reporting Advisory Group (EFRAG) submitted the first set of draft ESRS to the EC in its role as technical adviser to the EC.
- ▶ The 12 ESRS are: two cross-cutting standards and ten topical sector-agnostic on environmental (5x), social (4x) and governance (1x) (ESG). Sector-specific standards are in development, but delayed by (at least) one year.
- ▶ Entity-specific topics are required to be disclosed, if deemed material and not covered by sector-agnostic or sector-specific standards

Source: EFRAG, [First Set of draft ESRS - EFRAG](#)

Climate disclosures in Aotearoa New Zealand

Climate reporting entities are required to make climate-related disclosures in accordance with Aotearoa New Zealand Climate Standards.



- ▶ NZ CS 1 *Climate-related Disclosures* specifies:
 - ▶ the climate-related disclosure requirements for the thematic areas of Governance, Strategy, Risk Management and Metrics and Targets
 - ▶ the assurance requirements for greenhouse gas emissions disclosures.



- ▶ NZ CS 2 *Adoption of Aotearoa New Zealand Climate Standards* specifies optional transitional relief



- ▶ NZ CS 3 *General Requirements for Climate-related Disclosures* specifies the principles, underlying concepts (e.g., materiality) and general requirements for preparing and disclosing climate-related information

The Standards are effective for annual reporting periods beginning on or after 1 January 2023.

For example, for climate reporting entities with 31 March year ends, the first year of reporting in accordance with the Standards will be 31 March 2024.

Who must disclose

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 establishes a climate-related disclosure framework for New Zealand and makes climate-related disclosures mandatory for climate reporting entities.

Climate reporting entities (CREs) are:

Listed issuers	
Total market value of equity securities > \$60 million	or
Total face value of quoted debt securities	

Registered banks, credit unions, building societies
Total assets > \$1 billion

Licenced insurers	
Total assets > \$1 billion	or
Annual gross premium revenue > \$250 million	

Managers of registered investment schemes
Total assets under management (AUM) > \$1 billion

CREs do not include:

- ▶ Listed issuers that have securities quoted only on growth markets
- ▶ Entities with no quoted securities

CREs do include:

- ▶ Overseas incorporated organisations if their New Zealand business meets any of the above requirements

NZ CS 1

To provide information about the climate-related risks and climate-related opportunities that climate change presents for its activities over the short, medium and long term, an entity must disclose:

Governance

- ▶ The identity of the governance body responsible for oversight of climate-related risks and opportunities
- ▶ A description of the governance body's oversight of climate-related risks and opportunities
- ▶ A description of management's role in assessing and managing climate-related risks and opportunities

Strategy

- ▶ A description of its current climate-related impacts
- ▶ A description of the scenario analysis it has undertaken
- ▶ A description of the climate-related risks and opportunities it has identified over the short, medium, and long term
- ▶ A description of the anticipated impacts of climate-related risks and opportunities
- ▶ A description of how it will position itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future state

Risk management

- ▶ A description of its processes for identifying, assessing and managing climate-related risks
- ▶ A description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management processes

Metrics and targets

- ▶ The metrics that are relevant to all entities regardless of industry and business model
- ▶ Industry-based metrics relevant to its industry or business model used to measure and manage climate-related risks and opportunities
- ▶ Any other key performance indicators used to measure and manage climate-related risks and opportunities
- ▶ The targets used to manage climate-related risks and opportunities, and performance against those targets

Guidance available for NZ Climate Standards

External Reporting Board (XRB) (the standard setter)

- ▶ All Sector Staff Guidance for NZ CS
- ▶ MIS Manager Staff Guidance for NZ CS
- ▶ Transition planning - Questions to get started
- ▶ Entity-level Scenario Analysis Staff Guidance
- ▶ Comparison Document: Aotearoa New Zealand Climate Standards and IFRS® Sustainability Disclosure Standards

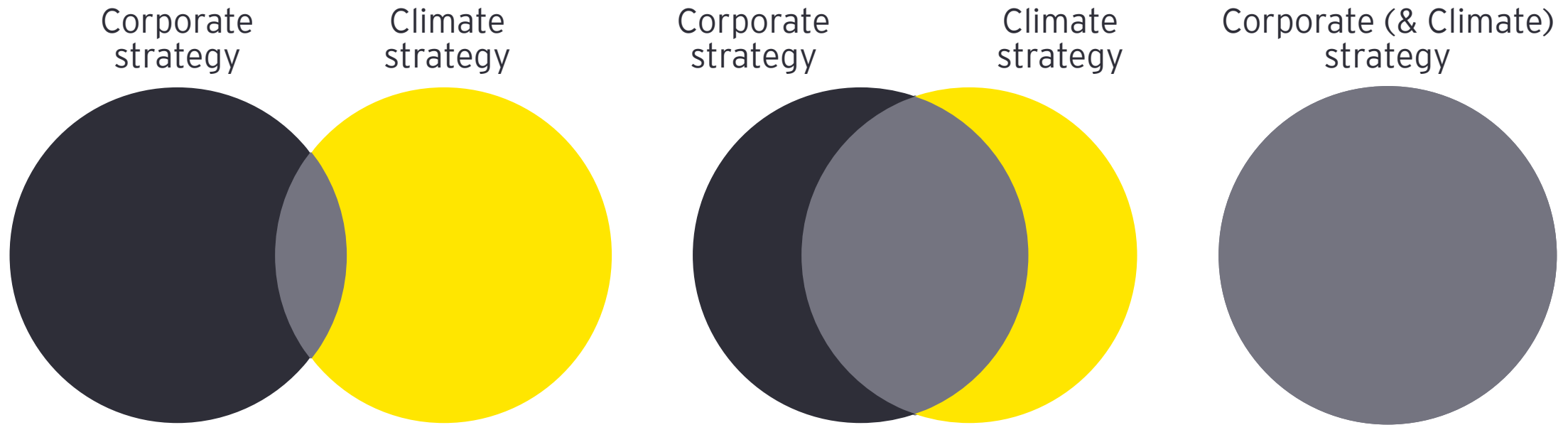
Financial Market Authority (FMA) (the regulator)

- ▶ "Am I a Climate Reporting Entity?" fact sheet
- ▶ Climate-related disclosure record keeping: our initial approach
- ▶ Climate-related Disclosures Monitoring Plan 2023-2026
- ▶ Climate-related disclosures regime and the use of third-party providers information sheet
- ▶ Scenario Analysis information sheet
- ▶ Guidance for keeping proper climate-related disclosure records

Implications for internal audit



Convergence of corporate and climate strategy

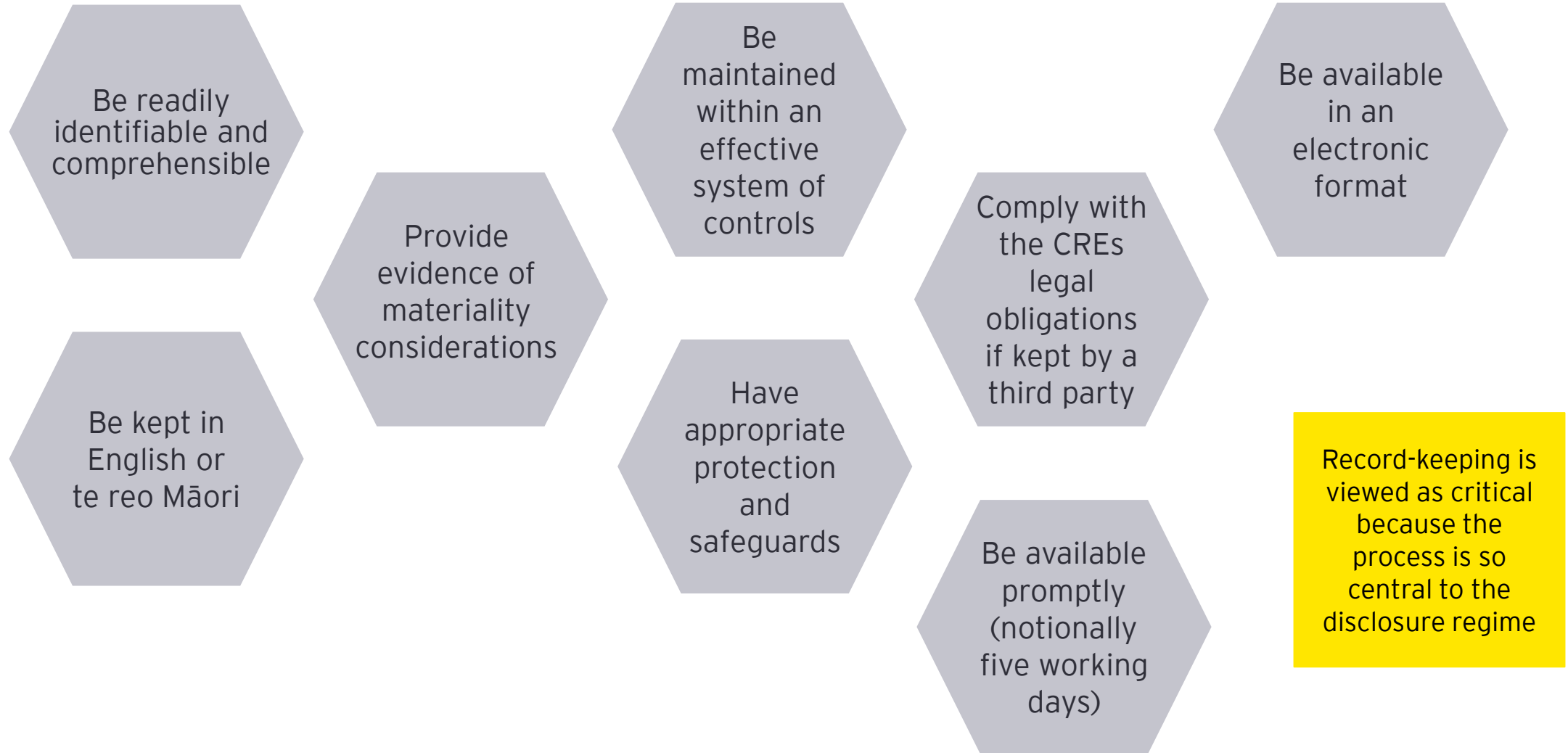


Internal audit has a crucial role to play in helping with this strategic transformation

Reporting and corporate action

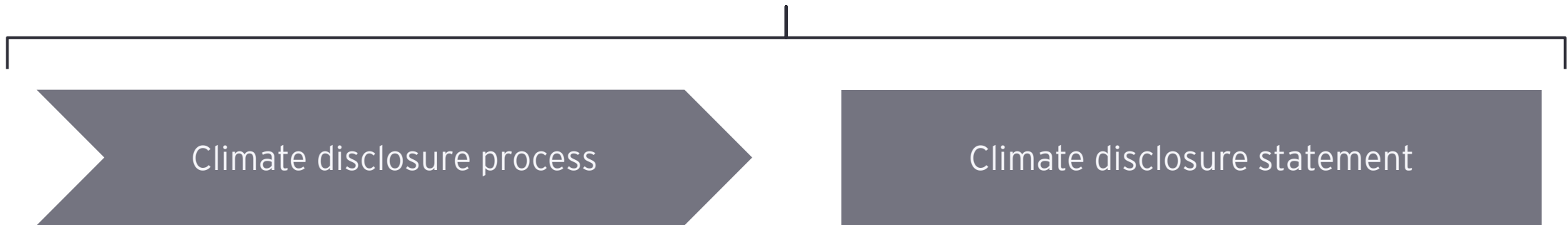


Climate Disclosure Records must:



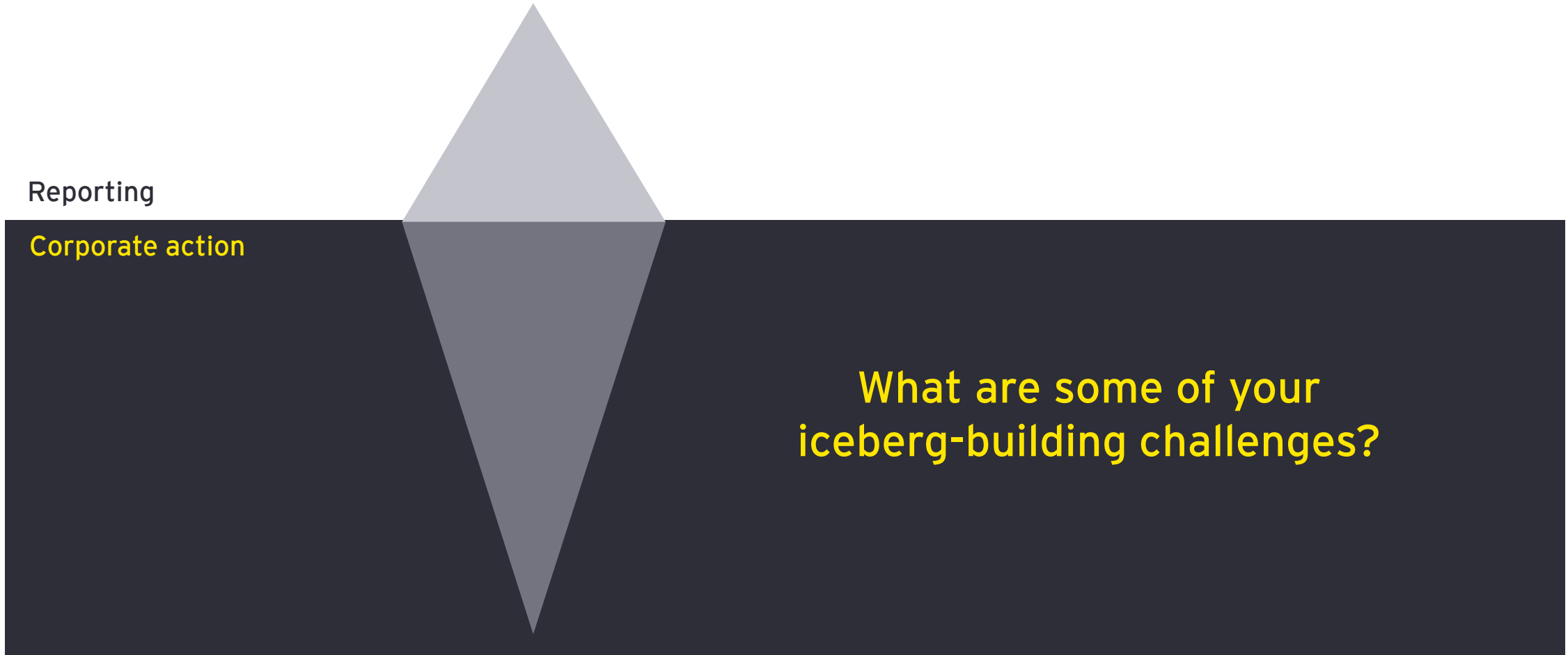
Implications for internal audit

The XRB and the FMA have made it clear that both “the how” and “the what” are crucially important



- ▶ Company Directors are responsible/liable for climate disclosures
- ▶ Not just for external consultants and auditors, the processes must be internal
- ▶ Internal knowledge- and capacity-building exercises are important
- ▶ The structure of your organisation should be considered
- ▶ Judgements about materiality are critical and must be recorded
- ▶ Internal controls are a crucial part of the disclosure regime

Internal audit challenges



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