MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Ministry for the Environment
Manatū Mō Te Taiao

Assurance over climate-related disclosures: occupational regulation and expanding the scope of assurance

NOVEMBER 2022

CONSULTATION DOCUMENT

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
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Ministry for the Environment
Manatū Mō Te Taiao

Ministry of Business, Innovation and Employment (MBIE)
Hīkina Whakatutuki – Lifting to make successful

MBIE develops and delivers policy, services, advice and regulation to support economic growth and the prosperity and wellbeing of New Zealanders.

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More information can be found on our website: **www.mbie.govt.nz.** This document was produced in partnership with the Ministry for the Environment - Manatū Mō Te Taiao.

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How to have your say

SUBMISSION PROCESS

The Ministry of Business, Innovation and Employment (**MBIE**) and the Ministry for the Environment (**MfE**) seeks written submissions on the issues raised in this document by **5pm on 10 February 2023**.

Your submission may respond to any or all the questions. Where possible, please include evidence to support your views, for example references to independent research, facts and figures, or relevant examples. Please include your contact details in the cover letter or e-mail accompanying your submission.

You can make your submission by:

- sending it as a Microsoft Word document to climateassurance@mbie.govt.nz
- mailing it to:

Corporate Governance and Intellectual Property Policy
Building, Resources and Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140
New Zealand

Please direct any questions that you have in relation to the submissions process to climateassurance@mbie.govt.nz.

USE OF INFORMATION

The information provided in submissions will be used to inform MBIE and MfE's policy development process and will inform advice to Ministers on:

- occupational licensing for CRD assurance practitioners
- extending the scope of an assurance engagement to the whole climate statement.

We may contact submitters directly if we require clarification of any matters in submissions.

RELEASE OF INFORMATION

MBIE intends to upload PDF copies of submissions received to MBIE's website at ***www.mbie.govt.nz***. MBIE will consider you to have consented to uploading by making a submission, unless you clearly specify otherwise in your submission.

If your submission contains any information that is confidential or you otherwise wish us not to publish, please:

- indicate this on the front of the submission, with any confidential information clearly marked within the text
- provide a separate version excluding the relevant information for publication on our website.

Submissions remain subject to request under the Official Information Act 1982. Please set out clearly in the cover letter or e-mail accompanying your submission if you have any objection to the release of any information in the submission, and in particular, which parts you consider should be withheld, together with the reasons for withholding the information. MBIE will take such objections into account and will consult with submitters when responding to requests under the Official Information Act 1982.

PRIVATE INFORMATION

The Privacy Act 2020 establishes certain principles with respect to the collection, use and disclosure of information about individuals by various agencies, including MBIE and MfE. Any personal information you supply to MBIE and MfE in the course of making a submission will only be used for the purpose of assisting in the development of policy advice in relation to this consultation. Please clearly indicate in the cover letter or e-mail accompanying your submission if you do not wish your name, or any other personal information, to be included in any summary of submissions that MBIE may publish.

Contents

Chapter 1: Purpose of consultation

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (**CRD Act**) introduced a new climate-related disclosures regime in New Zealand. This consultation document seeks feedback on two issues related to the assurance requirement in the CRD Act.

1.1 TWO ISSUES FOR FEEDBACK

The CRD Act imposes obligations on large financial market participants to disclose information about their climate-related risks and opportunities in annual climate statements. The disclosures in the climate statements regarding greenhouse gas (**GHG**) emissions must be independently assured from the second year of reporting. The CRD Act does not require any other disclosures to be the subject of an assurance engagement.

We are seeking feedback on two assurance-related issues in this consultation document, namely:

1. Whether we should introduce an occupational licensing regime for the practitioners carrying out the assurance over the disclosures, referred to as "CRD assurance practitioners" (**Issue 1**).

2. Whether we should extend the scope of the assurance requirement from the current obligation to assure GHG emissions disclosures only, to assurance over all disclosures in the climate statement (**Issue 2**).

1.2 OBJECTIVE

One of the key objectives of the climate-related disclosures regime is to drive smarter, more efficient allocation of capital that helps smooth the transition to a more sustainable, low-emissions economy. To achieve this objective, the regime established by the CRD Act is designed to ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions. It does so by:

1. making businesses prepare, and allowing others to access, information in climate statements about climate-related risks and opportunities the businesses face
2. subjecting some of the information to assurance requirements.

This consultation document focuses on the assurance stage. It explores options for regulating people's entry into, and operation within, the CRD assurance practitioner market and for expanding the information that must be assured. In considering these options, our primary objective is to find the best approach for enhancing the trust and confidence that readers of the disclosures have in the information that is disclosed. If the information is trusted, it is more likely to be useful and relied upon by readers of the disclosures when making decisions about capital allocation.

The trust we build in this information will support the CRD Act's aim of ensuring routine consideration of the effects of climate change when making commercial decisions, driving smarter, more efficient allocation of capital that helps smooth the transition to a more sustainable, low-emissions economy.

1	Do you agree that we have set the right objective for considering Issues 1 and 2?

1.3 PROCESS AND TIMEFRAMES

Consultation is open from 22 November 2022 until 10 February 2023. We welcome any submissions, comments, and questions that you may have. Following consideration of all submissions, we will undertake further analysis to inform policy decisions made by Cabinet. The below table provides an indicative timeframe for the next stages:

Stage	Date
Public consultation open	November 2022 – February 2023
Consideration of feedback and further policy analysis	February 2023 - March 2023
Brief Minister of Commerce and Consumer Affairs and Minister of Climate Change on policy proposals	April 2023

Stage	Date
Ministers seek Cabinet agreement to policy proposals	June 2023

Chapter 2: Executive Summary

We propose to introduce direct licensing of CRD assurance practitioners with the Financial Markets Authority (**FMA**) as the regulator. We also propose to extend the assurance requirement to all disclosures in the climate statement.

2.1 ISSUE 1 – DEVELOPING A LICENSING REGIME FOR ASSURANCE PRACTITIONERS

Status quo and problem definition

The CRD Act contains an assurance requirement that comes into force in October 2024. The Act will require disclosures in climate statements relating to GHG emissions to be independently assured. We are also proposing that the assurance requirement should be expanded to cover the whole climate statement (see discussion below).

There is a risk that individuals who are not appropriately skilled or subject to satisfactory professional standards could carry out the assurance engagement. This is because there are no licensing arrangements for CRD assurance practitioners in the CRD Act and nor are there are processes for dealing with complaints or monitoring their work. If un-skilled assurance practitioners carry out the assurance engagement this may reduce confidence in the practitioners and in the information that they assure.

The options to address the problem

We have explored three options to address the problem described under Issue 1 above:

1. continuing with the status quo i.e., no occupational licensing for CRD assurance practitioners
2. co-regulation modelled on the *Auditor Regulation Act 2011* (**Auditor Regulation Act**)
3. direct regulation by the FMA.

Under a co-regulatory model, professional bodies would be responsible for frontline regulation such as licensing and investigating complaints. The FMA would be responsible for accrediting the professional bodies and monitoring and reporting on the adequacy and effectiveness of their regulatory systems.

Under a direct regulation model, a government regulator would be responsible for carrying out all licensing and regulatory functions without an intermediary professional body. If direct regulation is the chosen option, the FMA would be the preferred choice for carrying out this function.

Objective and criteria for assessment

Our objective is to enhance the trust and confidence users place in the information disclosed in the climate statements. We assessed the three options against the criteria of:

- effectiveness in improving trust and confidence in the climate statements
- flexibility
- competitive neutrality
- efficiency.

Preliminary conclusion

In our view, both the co-regulation and direct regulation models would ensure that competent practitioners undertake the assurance work. Both represent an improvement on the status quo – at least in terms of promoting trust and confidence in the climate statements. This is because both regulatory options should enhance user confidence in the assurance practitioners which, in turn, would enhance confidence in the information being assured.

Of the two licensing options, direct regulation is our preferred option because it is more flexible than co-regulation if future changes to the occupational licensing regime are required. Co-regulation based on the Auditor Regulation Act also risks excluding competent practitioners who are not professional accountants from the assurance work because the two professional bodies accredited under the Auditor Regulation Act are accounting membership bodies. This means that they already have the necessary infrastructure in place to become accredited under a new co-regulatory regime for CRD assurance practitioners but membership bodies for new or developing professions may not. Co-regulation is also not as cost efficient as direct regulation.

Our preferred approach is therefore the direct regulation of CRD assurance practitioners by the FMA.

2.2 ISSUE 2 – THE SCOPE OF THE ASSURANCE ENGAGEMENT

Status quo and problem definition

Independent assurance is only required over the GHG emissions disclosures in the climate statements. This means that other parts of the climate statement are not required to be assured and, if they are voluntarily assured, there are no mandated assurance standards for the assurance engagement. This creates a risk that:

- users will have less confidence in the parts of the climate statement that are not independently assured
- assurance practitioners may not use the same assurance standards for any voluntary reporting resulting in inconsistencies between assurance reports.

The options to address the problem

We have explored four options to address the problem described under Issue 2 above:

1. continuing with the status quo, i.e., no extension to the assurance requirement
2. a non-regulatory option, i.e., encourage voluntary extension of assurance
3. extending the assurance requirement to cover the whole climate statement from October 2028.
4. extending the assurance requirement to cover the whole climate statement from October 2028 *and* empowering the External Reporting Board (**XRB**) to stagger the introduction of climate statement assurance requirements before this date.

Objective and criteria for assessment

Our objective is to enhance the trust and confidence users place in the information disclosed in the climate statements. We assessed the three options against the criteria of:

- effectiveness in improving trust and confidence in the climate statements
- flexibility
- efficiency.

Preliminary conclusion

In our view, expanding the assurance requirement to all disclosures in the climate statement will increase trust and confidence in the disclosures through faithful representation and improve their usefulness. Empowering the XRB to stagger the introduction of assurance requirements before the date for full assurance should also enhance trust and confidence in those parts of the climate statements being assured. Our preliminary conclusion is that there may be a lack of trust and confidence in the climate statement disclosures under the status quo and non regulatory options.

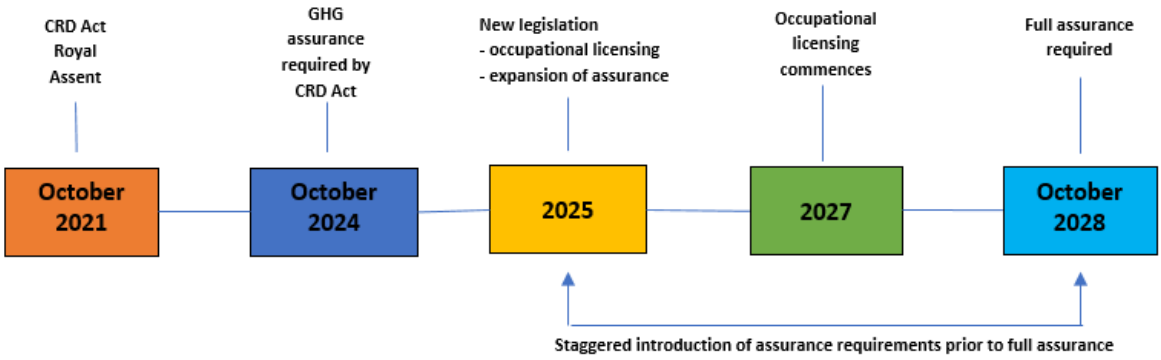
Although extending the assurance requirement is less flexible than the status quo or the non-regulatory option, this lack of flexibility is offset to some degree by the lead time before full assurance is introduced. We suggest that the date for full assurance is October 2028, i.e., seven years after the CRD Act received Royal Assent. We also consider that full assurance (including with the staggering approach) is the most efficient option.

Our preferred approach is therefore to extend the assurance requirement to the whole climate statement from October 2028 and to empower the XRB to stagger the introduction of assurance requirements before the date for full assurance.

2.3 TIMEFRAME FOR IMPLEMENTATION OF PREFERRED APPROACH FOR ISSUE 1 AND ISSUE 2

We propose that the occupational licensing regime (Issue 1) be established before full assurance (Issue 2) is required. This is because we consider that there should be clarity and regulatory oversight over assurance practitioners before requiring a wide range of novel assurance engagements. In this regard, if direct regulation is introduced for CRD assurance practitioners, we will aim to pass legislation by 2025 so that the new occupational licensing regime can begin in 2027. This will provide time for licensees and the regulator to prepare, and for the Government to make regulations. Our intention is that this new legislation will also address the expansion of the assurance requirement and the ability of the XRB to stagger the introduction of assurance requirements. As noted, we propose that full assurance will be required for accounting periods ending on or after October 2028.

The timeframe for our combined proposals is set out below:



Chapter 3: The context

The implementation of the new climate-related disclosures regime is progressing well with the first climate standards expected to be issued by the XRB in December 2022 and the first climate statements likely to be produced in early 2024. This is an opportune time to consider if a regulated assurance profession and expanded assurance requirement are desirable for the future of the regime.

3.1 THE GOVERNMENT HAS INTRODUCED A CLIMATE-RELATED DISCLOSURES REGIME

The CRD Act introduced a new climate-related disclosures regime in New Zealand for large financial market participants. The purpose of the Act is to:

- ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions
- help climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues
- lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.

The CRD Act requires climate reporting entities to disclose their climate-related risks and opportunities in annual climate statements. Climate-reporting entities under the CRD Act comprise large listed issuers, banks, insurers, credit unions, building societies and investment scheme managers. We anticipate that approximately 200 large financial market participants will be required to make disclosures under the new reporting regime.

Climate statements must be prepared in accordance with climate standards issued by the XRB. The XRB has been developing climate standards based on the recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD**). The TCFD is widely acknowledged internationally as the best practice framework for climate-related disclosures. Climate-reporting entities will make disclosures under four thematic headings proposed by the TCFD recommendations: governance, strategy, risk management, and metrics and targets.

The disclosure requirements are triggered when the XRB issues the first climate standards, which is expected to be in December 2022. Climate reporting entities will prepare climate statements in relation to their first financial year commencing on or after 1 January 2023. Climate statements must then be lodged within four months of the end of the financial year. The first climate statements are therefore expected to be filed in early 2024.

For example, a climate-reporting entity with a 31 December balance date will prepare its first climate statements in relation to the year 1 January 2023 – 31 December 2023 and must lodge those statements by 30 April 2024.

The FMA has been given the regulatory function to independently monitor and enforce compliance with the CRD regime.

3.2 THE ASSURANCE REQUIREMENT

The CRD Act introduced a new assurance obligation in the *Financial Markets Conduct Act 2013* (**FMC Act**). New section 461ZH(1) of the FMC Act states that:

> *Every climate reporting entity must ensure that the climate statements or group climate statements that are required to be prepared under any of sections 461Z to 461ZC are, to the extent that those statements are required to disclose greenhouse gas emissions, the subject of an assurance engagement.*

These 'assurance engagements' must be carried out in accordance with all applicable auditing and assurance standards issued by the XRB.[1]

The assurance obligation will come into force by October 2024.[2] This means that the first climate statements with GHG emissions assurance will be produced in the second year of reporting, i.e., in 2025.

[1] See section 25 of the CRD Act inserting, in particular, section 461ZHA of the FMC Act.
[2] The assurance obligation will come into force by the third anniversary of Royal Assent of the CRD Act, unless introduced earlier by Order in Council. The CRD Act received Royal Assent on 27 October 2021.

3.3 WHAT DOES ASSURANCE MEAN?

Assurance is a general term that refers to an expression of a conclusion by a qualified practitioner that is intended to increase the confidence that users can place in a given subject matter. Independent assurance can support trust and build confidence in information to support decision making by shareholders, investors, and other stakeholders. [3] Assurance is useful to the extent to which it will enhance users' confidence in the information. A climate statement assurance engagement (or any other sustainability assurance engagement) will be carried out by an "independent assurance practitioner".

There are differing levels of assurance which result in different types of conclusions. An assurance engagement in relation to climate or other sustainability information is either a "reasonable assurance engagement" or a "limited assurance engagement".[4] The terms "audit" or "review" are only used in relation to assurance over historical financial information.

The key difference between a reasonable assurance engagement and a limited assurance engagement relates to the activity undertaken by the assurance practitioner and the conclusion that is drawn. A reasonable assurance engagement is expressed in positive terms (e.g., "in our opinion, the subject matter information presents fairly…") and requires a higher level of work effort than limited assurance. A limited assurance engagement is expressed in negative form. For example, "based on the work performed, as described in the report, nothing has come to our attention…".[5]

Climate statements will include a range of information, including historical and future-oriented information. An assurance engagement could consider whether some or all of the disclosures in the climate statements have been prepared in accordance with the climate standards. An assurance engagement could also relate to an entity's processes and controls, i.e., an opinion could be expressed on the design and effectiveness of an entity's controls and on an entity's methodologies and their application.

3.4 BACKGROUND TO THE ASSURANCE REQUIREMENT

Occupational licensing

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (**CRD Bill**) originally contained CRD assurance practitioner licensing and accreditation provisions that set out who could carry out the assurance engagements. These provisions would have introduced a form of co-regulation for CRD assurance practitioners but with less stringent monitoring by the FMA when compared to the provisions in the Auditor Regulation Act.

Two key concerns were raised by the Economic Development, Science and Innovation Committee (the **Select Committee**) during consideration of the CRD Bill. The first was that non-accountants could be excluded from carrying out assurance engagements. The second was that the licensing regime might be ineffective because the FMA would have limited oversight of practitioners and approved bodies. The Select Committee considered that the licensing regime proposed in the CRD Bill would not be effective and recommended the sections be removed.

Scope of assurance

In August 2020, the Government made policy decisions on the new CRD regime, agreeing that it should not impose mandatory assurance obligations in relation to the whole climate statement. This was primarily due to demand and supply-side uncertainties. There was uncertainty about the content of climate statements, and assurance standards setters had not yet responded to user demand for new or amended standards and guidance material. Instead, broader mandatory assurance was proposed to be reconsidered in the future when there was more clarity over these uncertainties.

In this regard, section 461ZHC of the FMC Act, as amended by the CRD Act, does not prevent a climate reporting entity from voluntarily obtaining an assurance engagement covering either the whole climate statement, or other parts of the climate statement in addition to GHG disclosures.

Where are we now?

We now have a much clearer picture of what climate reporting entities will be required to disclose under the new reporting regime. The XRB has released the exposure draft of the climate standards and will issue the first climate standards in December 2022. The XRB is also working on the development of assurance standards for the purposes of the climate-related disclosures regime. It is therefore an appropriate time for us to consider whether a regulated assurance profession and an expanded assurance requirement is desirable for the future of the regime.

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[3] See *A guide to understanding auditing and assurance: FMC Reporting Entities in New Zealand*, CPA Australia, Nov 2019 (Audit and assurance | CPA Australia).

[4] See *A guide to understanding auditing and assurance: FMC Reporting Entities in New Zealand*, CPA Australia, Nov 2019 (Audit and assurance | CPA Australia).

[5] See *A guide for prescribers of assurance engagements*, undated, available on the XRB website.

3.5 THE INTERNATIONAL CONTEXT

We are currently witnessing rapid change in relation to climate and wider sustainability reporting[6] internationally. Our consideration of the assurance requirements for the climate-related disclosures regime is informed by this international context. There are two emerging trends:

- International standards setters are responding to demand from markets, governments and regulators for new or improved climate and wider sustainability reporting frameworks and standards, and assurance standards in relation to non-financial reporting.
- Governments and regulators are introducing or expanding climate and wider sustainability reporting requirements.

Further information about international reporting frameworks and standards, and reporting requirements, is set out in Appendix 1.

[6] See "sustainability reporting" in the glossary.

Chapter 4: Options for establishing an occupational licensing regime

We are considering whether we should introduce an occupational licensing regime for CRD assurance practitioners.

4.1 STATUS QUO

The CRD Act requires climate statements to be assured by independent CRD assurance practitioners, to the extent that they contain information about GHG emissions. We propose extending this requirement to the whole of the climate statement (see Chapter 5 for more detail).

Currently, any person carrying out an assurance engagement for information contained in a climate statement does not need to be licensed and there is no formal process in place for monitoring their work or addressing complaints.

The FMA has some powers that it could exercise in relation to CRD assurance practitioners under the current regime. This includes the FMA's general warning and information-gathering powers under the Financial Markets Authority Act 2011. The fair dealing provisions under Part 2 of the FMC Act will also apply[7]. Injunctive relief will be available in respect of conduct that contravenes the FMC Act.[8]

In addition, while there is no offence provision for non-compliance, the CRD Act provides that CRD assurance practitioners must carry out assurance engagements in accordance with applicable auditing and assurance standards.[9]

CRD assurance practitioners who are members of professional bodies may also be subject to some oversight by those bodies. For example, New Zealand members of Chartered Accountants Australia and New Zealand (**CA ANZ**) who offer assurance services are regulated as chartered accountants.

4.2 PROBLEM DEFINITION

Climate-reporting entities may be incentivised, for credibility reasons, to select suitable individuals to provide assurance over their climate statements. However, the absence of an occupational licensing regime for CRD assurance practitioners means that practitioners who are un-skilled, or not subject to satisfactory professional standards, could carry out assurance work. In addition, without the minimum requirements that would be introduced by an occupational licensing regime, firms with less stringent assurance practices and oversight might undertake the work at a lower cost than highly competent and qualified practitioners. This may deter highly qualified practitioners from entering the market.

If CRD assurance practitioners are not appropriately skilled this may reduce confidence in the practitioners and the information in the climate statements that they assure.

2	Have we described the status quo and problem definition correctly? If not, why not?

4.3 SUMMARY OF THE OPTIONS

We have identified three options that may address the problem:

1. Option 1: continue with the status quo
2. Option 2: co-regulation modelled on the Auditor Regulation Act
3. Option 3: direct regulation of CRD assurance practitioners by the FMA.

4.3.1 Option 1: continue with the status quo

Option 1 is continuing with the status quo. This means that no regulation for CRD assurance practitioners would be introduced. The status quo has been described in more detail above in section 4.1 of this consultation document.

[7] Part 2 of the FMC Act requires "fair dealing" in relation to financial products and services. The fair dealing provisions set out the core standards of behaviour that those operating in financial markets must comply with. Fair dealing principles are broad and prohibit misleading or deceptive conduct, including conduct which is likely to mislead or deceive, and false, misleading or unsubstantiated representations.

[8] See section 480 of the FMC Act

[9] See section 25 of the CRD Act inserting, in particular, future section 461ZHA of the FMC Act

4.3.2 Option 2: Co-regulation modelled on the Auditor Regulation Act

Option 2 would introduce co-regulation modelled on the Auditor Regulation Act. The Auditor Regulation Act specifies that both accredited bodies and the FMA undertake regulatory activities in relation to auditors. This would also be the case if co-regulation was adopted for CRD assurance practitioners.

Overview of the Auditor Regulation Act

The Auditor Regulation Act requires that:

- individuals who act as auditors for FMC reporting entities must be licensed[10]
- audit firms that have at least one licensed auditor must be registered.[11]

A co-regulation model for CRD assurance practitioners would similarly involve both the licensing of assurance practitioners and the registration of firms with at least one practitioner.

FMC reporting entities are defined in the FMC Act to include entities such as listed issuers, registered banks, licensed insurers, credit unions etc.[12] Climate-reporting entities are a sub-set of FMC reporting entities.

How would co-regulation work?

We have set out below the regulatory responsibilities of accredited bodies and the FMA under the Auditor Regulation Act. At a high level, the FMA accredits professional bodies who undertake the frontline licensing and enforcement. The FMA also monitors the accredited bodies and carries out quality reviews. A co-regulation model for CRD assurance practitioners would involve similar requirements.

(i) the accredited bodies

Other than quality review, the frontline regulation under the Auditor Regulation Act is undertaken by accredited bodies. The FMA sets the minimum standards for licensing and registration.[13] The accredited bodies then license auditors and register audit firms, regulate ongoing competence requirements, investigate complaints and take disciplinary action. Under a co-regulatory model, they would do the same in respect of CRD assurance practitioners.

There are currently two professional bodies that are accredited under the Auditor Regulation Act – the New Zealand Institute of Chartered Accountants (**NZICA**)[14] and CPA Australia. These are the professional bodies that undertake the day-to-day regulation of auditors of FMC reporting entities.

To gain accreditation under the Auditor Regulation Act, a professional body must have objectives consistent with the purpose of the Auditor Regulation Act and relevant expertise, i.e. only professional accounting bodies can become accredited. For climate statement assurance the relevant skill-set will relate to both assurance and climate or carbon energy expertise. This means that the accounting bodies (NZICA and CPA Australia) and potentially another professional body representing climate or carbon energy professionals could apply for accreditation. We are aware of at least one such professional body in existence in New Zealand (Carbon and Energy Professionals New Zealand).

(ii) The FMA – quality review and monitoring the accredited bodies

The FMA has responsibility under the Auditor Regulation Act for accrediting the professional bodies and monitoring and reporting on the adequacy and effectiveness of those bodies' regulatory systems. The FMA also:

- prescribes the minimum standards for licensing of auditors, registration of audit firms and accreditation of professional bodies
- undertakes quality reviews of registered audit firms
- issues licences to overseas auditors.

Co-regulation for CRD assurance practitioners would involve the FMA carrying out similar tasks. In particular, the FMA would determine which professional bodies meet the requirements for CRD accreditation.

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[10] See section 8 of the Auditor Regulation Act.
[11] See section 9 of the Auditor Regulation Act.
[12] See section 6(1) of the FMC Act.
[13] *Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2020*.
[14] The Institute of Chartered Accountants in Australia and the New Zealand Institute of Chartered Accountants (NZICA) merged in 2015 to create Chartered Accountants Australia and New Zealand (CA ANZ). The New Zealand legislation that facilitated the merger requires NZICA to continue to regulate its members. CA ANZ members living in New Zealand are automatically members of NZICA (see New Zealand Institute of Chartered Accountants (NZICA) | CA ANZ (charteredaccountantsanz.com)).

(iii) Strict requirements for accreditation

Three requirements must be met before the FMA will grant a professional body accreditation under the Auditor Regulation Act[15]. First, the FMA must be satisfied the professional body's systems and processes are adequate for performing its regulatory functions. In addition to considering applications for licences and for registration of audit firms, these regulatory functions of professional bodies under the Auditor Regulation Act include:

- adopting, implementing, and monitoring codes of ethics
- monitoring compliance with auditing and assurance standards
- monitoring and reviewing the ongoing competence of members
- inquiring into the conduct of members and audit firms
- investigating complaints, taking disciplinary action and dealing with appeals from decisions of the disciplinary body.

Second, to become accredited, a professional body must meet certain minimum standards the FMA prescribes.[16] These minimum standards are extensive and include:

- having adequate governance and organisational structures, including a constitution
- being financially sustainable, including having sufficient access to funds to accommodate reasonable but unforeseen expenditure demands
- having a sufficiently independent disciplinary body to adjudicate on alleged breaches of conduct rules, conditions of licences or registration, the Auditor Regulation Act and auditing and assurance standards.

Third, the professional body must be a fit and proper person to perform regulatory functions for the purposes of the Auditor Regulation Act.

Co-regulation for CRD assurance practitioners would involve applying these same three requirements for accreditation. Taken together, these requirements are extensive. The significance of this for new professional bodies is discussed further below under the heading "assessment of the options".

3	Do you have any comments about how we have described the co-regulatory model under the Auditor Regulation Act?
4	If co-regulation is the preferred option should we depart from any of the Auditor Regulation Act requirements? If so, which ones and why?

4.3.3 Option 3: Direct regulation of CRD assurance practitioners by the FMA

Under this option, a government regulator would be responsible for all aspects of regulating CRD assurance practitioners and firms. Regulatory activities undertaken by the accredited bodies under the co-regulatory model would instead be undertaken by the government regulator. This means the government regulator would licence CRD assurance practitioners, register firms, investigate complaints and take disciplinary action, and monitor ongoing competence requirements and compliance with codes of ethics. The government regulator would also undertake the activities the FMA would carry out under the co-regulatory model, including quality review and setting the minimum competency standards.

Direct regulation could involve a new government regulator being set up to carry out these tasks. In Australia, the Clean Energy Regulator regulates and maintains the register of greenhouse and energy auditors. Registered auditors conduct most of the audits required under the Emissions Reduction Fund, the National Greenhouse and Energy Reporting Scheme and the Renewable Energy Target.[17]

We do not propose establishing a similar new climate regulator in New Zealand. This is because the Australian Clean Energy Regulator was established to administer schemes for measuring, managing, reducing or off-setting carbon emissions only. Its focus is much narrower than New Zealand's climate-related disclosures regime, which introduces mandatory climate-related reporting based on the TCFD model. The TCFD requires reporting across four key areas (governance, strategy, risk management and metrics and targets) i.e., the focus is much wider than carbon emissions. The FMA is already well-positioned to regulate this sort of reporting.

We therefore consider that the FMA is the best option to act as the regulator for the CRD regime if the direct regulation model is the preferred model. This is because:

[15] See section 48 of the Auditor Regulation Act.
[16] See the *Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012.*
[17] Audits (cleanenergyregulator.gov.au)

- All climate reporting entities are already regulated under the FMC Act by the FMA because they are all FMC reporting entities.
- There are synergies with the FMA's responsibilities as co-regulator under the Auditor Regulation Act. For example, the FMA already undertakes quality reviews of registered audit firms. This activity could be extended to CRD assurance practitioners.

5	If direct regulation is the preferred option do you agree that the FMA should be the regulator? If not, why not and who else should it be?

4.3.4 A hybrid model

We also considered a hybrid model. Under this model co-regulation would be available for professional bodies that have sufficient regulatory infrastructure to obtain accreditation. Direct regulation would be available for professions without the necessary regulatory infrastructure.

However, we concluded that the hybrid model is not a viable option for a number of reasons. First, it is complex as it requires two regulatory systems to run in parallel. This may create inconsistencies in treatment of CRD assurance practitioners and will also result in inefficiencies. For example, introducing two regulatory systems with multiple regulators will mean a dilution of the regulatory function. Resources would be spread thinly and knowledge will not be centralised. A hybrid model may also require the FMA's time and resources to share knowledge and insights from its monitoring activities across all regulators.

Second, operational costs are likely to be multiplied under the hybrid model. For example, the accredited bodies and the FMA would all need processes for licensing practitioners. Ultimately these costs are likely to flow to CRD assurance practitioners, market participants and investors.

The third reason why we do not think the hybrid model is a viable option is because it may compartmentalise assurance practitioners depending on their qualifications and experience. That could act as a barrier to the development of a new or evolving profession of CRD assurance practitioners. We consider that the hybrid option may therefore lead to the worst of both worlds.

6	Do you agree that the hybrid model is not viable? Why/why not?

4.3.5 Requirements for the co-regulation and direct regulation options

If Option 2 or 3 is preferred, the regulation of the CRD assurance practitioners and their firms would remain the same. The difference between co-regulation and direct regulation relates to *who* should do the regulating, not *what* that regulation should involve. In either case, all CRD assurance practitioners would have to meet the same minimum competency standards and be subject to similar regulatory oversight, whether by a professional body, a government regulator, or a combination of both.

Under the Auditor Regulation Act, the FMA issues minimum standards for auditors by notice following a consultation period. We propose the same method for setting standards for CRD assurance practitioners if either the co-regulation or direct regulation model is preferred.

Regardless of the model, the CRD assurance practitioner would need to be accountable for the contents of the assurance report and for contributions from technical experts (if they have been used). As is the case under the Auditor Regulation Act, we intend to regulate only the person who takes overall responsibility for the assurance engagement and not other individuals who may contribute to the assurance engagement in some way. This approach is consistent with the XRB's *Explanatory Guide Framework for Assurance Engagements*, which notes that an assurance practitioner has sole responsibility for the assurance conclusion expressed and that responsibility is not reduced by the assurance practitioner's use of the work of experts or other assurance practitioners.[18]

7	Do you agree with our proposal that the FMA will set the minimum standards for CRD assurance practitioners? Why/why not?
8	Do you agree that we should only regulate the CRD assurance practitioner who takes overall responsibility for the assurance engagement? Why/why not?
9	Have we considered the best options (continuing with the status quo, co-regulation and direct regulation) to assess? If not, what other options should we consider?

[18] Explanatory Guide (EG Au1a) » XRB

4.4 CRITERIA

In this chapter we have used four criteria to assess the options:

1. effectiveness in achieving our objective i.e. enhancing trust and confidence in the climate statements (see Part 1.2 of this consultation document)
2. flexibility
3. competitive neutrality
4. efficiency.

In our view, the first criterion (effectiveness) is the most important and should have the most weight attributed to it.

When assessing the co-regulation and direct regulation models, we consider whether these models perform better, worse or the same as the status quo.

10	Do you agree with the criteria we are using to assess the options? Do you consider that the effectiveness criterion should have the most weight or should they all have equal weight?

4.5 ASSESSMENT OF THE OPTIONS

4.5.1 Effectiveness in enhancing trust and confidence in the climate statements

The first criterion we have considered is the effectiveness of each option in meeting our objective of improving trust and confidence in the climate statements. If information in the climate statements is not trusted, then it will not be relied upon to make investment decisions. This means that the effects of climate change are less likely to be routinely considered in business and investment decisions and consequently investors may not redirect capital to more sustainable activities.

Status quo

The status quo may not promote trust and confidence in the climate statements. There is a risk of unqualified individuals carrying out the assurance work if no occupational licensing is introduced. The tools available to the FMA may not be sufficient to counteract this risk. If unqualified individuals carry out the assurance work this could create significant reputational damage to the climate-related disclosures regime and a loss of confidence in the climate statements.

Continuing with the status quo means that there will be no minimum competency requirements for CRD assurance practitioners. As noted above, this means that firms with less robust practices and oversight could undertake the work at a lower cost than highly competent practitioners. This may reduce the pool of reputable and competent practitioners and diminish the credibility of the climate statements being assured.

11	What level of trust and confidence do you think users will have in the climate statements under the status quo?

Co-regulation and direct regulation

Both the co-regulation and direct regulation models represent a significant improvement on the status quo when considering the effectiveness criterion. This is because both models would introduce minimum requirements for licensing of practitioners, quality review processes and disciplinary processes. These attributes would help to give users of the climate statements confidence in the CRD assurance practitioners and in the information the practitioners assure.

Both regulatory regimes should also reduce the risk of greenwashing. Introducing an occupational licensing regime means that qualified people should be carrying out the assurance engagements. This may reduce the risk that an organisation will misrepresent its green credentials in the climate statements.

Co-regulation

As noted, we consider that the co-regulatory model is an improvement on the status quo. However, there are still some risks associated with co-regulation that may impact on trust and confidence in the climate statements.

The co-regulatory model involves front-line regulation by professional bodies. It could be argued that professional bodies regulating their own members might be at an advantage in promoting trusted information. These bodies should know their own profession well and this may help them to undertake the regulatory function. However, we think that the potential benefits of a professional body regulating its own members are outweighed by the risks inherent to a co-regulation model.

The risk of inconsistent treatment could impact on trust and confidence in the assurance practitioners, and the climate statements they assure, under the co-regulatory model. For example, one professional body might deal with a complaint more leniently than another professional body.

There is the potential for three professional bodies to apply for accreditation under the co-regulatory model (the two existing accounting bodies that are accredited under the Auditor Regulation Act and a professional body representing carbon and energy professionals). The more professional bodies accredited, the greater the risk of inconsistent treatment.

Real or perceived conflicts of interest might also impact on trust and confidence in the climate statements under the co-regulatory model. This conflict relates to the dual function undertaken by professional bodies. They provide professional services to paying members, but they are also responsible for disciplining those members. If the professional bodies were perceived to be conflicted, this may impact on the trust people place in the CRD assurance practitioners and the climate statements assured by the practitioners.

Direct regulation

The direct regulation model does not have issues of inconsistent treatment or conflict of interest when compared to the status quo. All regulatory activities are carried out independently of the interests of the profession.

12	Do you agree with our assessment of the effectiveness criterion? If not, why not?

4.5.2 Flexibility

The new CRD assurance practitioner licensing regime is being adopted at a time of significant change. As discussed in Chapter 3 and Appendix 1, climate and sustainability reporting requirements have been expanding rapidly worldwide. Multiple jurisdictions are now proposing laws that require climate-related disclosures to align with TCFD recommendations.[19] The ISSB has also been set up in response to the demand for high quality and comparable reporting by companies on climate and other environmental, social and governance matters.[20]

We anticipate that mandatory climate-related and sustainability reporting is likely to become the international norm for large entities that participate in financial markets. In our view, the new CRD assurance practitioner licensing regime needs to be sufficiently flexible to enable an expansion from climate reporting assurance into sustainability reporting assurance for these financial market entities.

Status quo

The flexibility of the status quo could be considered in two ways. On the one hand, the status quo is very flexible, inasmuch as it is a blank slate – a hypothetical future regime for sustainability assurance practitioners would have no need to take account of any transition constraints that our two more immediate options might impose. On the other hand, inasmuch as flexibility suggests a certain agility in adapting to changing circumstances, the status quo could prove inflexible if a future regime needed to be designed from scratch, rather than by simply amending an existing framework.

For the purposes of the discussion below, we take the view that the status quo is flexible in its ability to adapt to future changes and therefore both the co-regulation and direct regulation options are *less* flexible than the status quo.

Co-regulation

The co-regulation model relies on a suitable professional body developing that can become accredited to take on the front-line regulation. The requirements for accreditation are strict and not easy for new professional bodies to meet.

Both accountants and carbon and energy professionals may well have suitable skills to undertake climate statement assurance. Therefore, it might follow that NZICA, CPA Australia and a climate or carbon energy focussed professional body could become accredited under a co-regulation model. However, if reporting expands into entirely new sustainability areas beyond climate (e.g., gender equality is listed as one of the UN's sustainable development goals) there could be a demand for multiple different sorts of professional bodies to undertake the frontline regulation. Professional bodies with expertise in different sustainability topics might be required. This would significantly increase the complexity of the co-regulation model.

When compared to the status quo, the co-regulation model is complex and not easily adapted to accommodate future developments.

Direct regulation

Direct regulation is a more flexible model than co-regulation but less flexible than the status quo. If there is expansion into sustainability reporting for financial market participants only one regulatory body (likely the FMA) would need to respond to the change.

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[19] *Task Force on Climate-related Financial Disclosures 2022 Status Report* (Publications | Task Force on Climate-Related Financial Disclosures (fsb-tcfd.org)

[20] IFRS - International Sustainability Standards Board

13	Do you agree with our analysis of the flexibility criterion? If not, why not?

4.5.3 Competitive neutrality

Climate statement assurance will rely on both assurance and scientific competence. We do not want to exclude competent practitioners from undertaking this work. As noted above, one of the reasons the licensing regime was removed from the CRD Bill was because of concerns that non-accountants could be excluded from carrying out assurance engagements. The new occupational licensing regime must address this concern, i.e. it must be competitively neutral.

Both accountants and carbon and energy professionals have expressed interest in undertaking climate statement assurance. Both professions could have (or acquire) the necessary skill set to do this work. The new regulatory regime should not favour one of these professions over the other.

Status quo

The status quo does not specify who may carry out the assurance work and therefore does not specifically favour one profession. The status quo could therefore be regarded as competitively neutral. Our analysis of whether the co-regulatory and direct regulatory models are competitively neutral when compared to the status quo is discussed below. There is some overlap between our analysis of the competitive neutrality criterion and the efficiency criterion which is focussed on costs (also set out below).

Co-regulation

The co-regulatory approach requires one or more accredited bodies to undertake the front-line regulation of CRD assurance practitioners. The regulatory infrastructure needed for a professional body to become accredited is extensive and not easily set up by a new membership body. To get accredited a professional body must have systems for issuing licences, monitoring codes of ethics and auditing and assurance standards, investigating and hearing complaints, taking disciplinary action etc. Setting up this regulatory infrastructure likely relies on having a large membership base to spread the costs (see discussion below). These factors make it challenging for a new professional body to become accredited.

The co-regulation model is likely to favour the accounting profession and therefore may provide them with a competitive advantage. Arguably, the co-regulation model is not competitively neutral when compared to the status quo.

Two accounting membership bodies (NZICA and CPA Australia) are already accredited under the Auditor Regulation Act. Given their existing regulatory infrastructure, it may be relatively straight forward for these membership bodies to become accredited bodies under a new co-regulatory regime for CRD assurance practitioners. However, the nascent carbon and energy profession may not be so well placed to undertake front-line regulation. There is at least one professional body in existence in New Zealand (Carbon and Energy Professionals New Zealand) but membership numbers are small when compared to the accounting bodies and further infrastructure development may be needed for accreditation**.** The high up-front and ongoing costs of the co-regulatory model may prevent carbon and energy professionals from entering the market.

Direct regulation

Direct regulation is closer to being competitively neutral when compared to the status quo. Under the direct regulation model, appropriately qualified practitioners would apply direct to the FMA for a licence. This option does not require the involvement of any professional bodies. There would still be costs for CRD assurance practitioners to become licensed and regulated by the FMA and some practitioners would be likely to be better positioned than others to meet these costs. However as discussed below, we expect this to be cheaper than the distributed costs of gaining accreditation under a co-regulatory model.

14	Do you agree with our analysis of the competitive neutrality criterion? If not, why not?

4.5.4 Efficiency

We discuss below the costs met by practitioners and firms, and by the regulators, under the three options. We also discuss the cost efficiencies of the three options. This is assessed in terms of the benefits received in relation to the costs incurred.

The discussion under this criterion relating to professional body costs is also relevant to the discussion under the competitive neutrality criterion.

Status quo

The status quo does not involve any regulator costs or costs to the CRD assurance practitioners or firms themselves. Both co-regulation and direct regulation will be more costly than the status quo.

CRD Assurance practitioner and firm costs – co-regulation

We expect that CRD assurance practitioners would have to pay a licence fee to their professional body and practitioner firms would have to pay a registration fee under the co-regulation model. The fees will need to reflect the professional body's costs of obtaining and maintaining accreditation. As discussed further below, these costs would be much higher for new professional bodies.

Under the co-regulatory model the FMA would also incur costs. These may be met through the payment of a levy by the industry or in some other way. This will be explored in more detail if the co-regulation model is the approach to be adopted.

CRD Assurance practitioner and firm costs – direct regulation

CRD assurance practitioners and firms would likely pay a licence and registration fee directly to the FMA. Other FMA fees and levies may also be charged to meet ongoing costs. However, as discussed under the competitive neutrality criterion, our expectation at this stage is that direct regulation would be more cost efficient for a new profession such as carbon and energy professionals. This is because of the significant costs of developing and maintaining the regulatory infrastructure required to become accredited. However, we are interested in whether you agree with this analysis.

Regulator costs – co-regulation

The co-regulatory model would impose costs on accredited bodies and the FMA as co-regulators. We can look to costs imposed on the regulators under the Auditor Regulation Act model to give us approximate costs for regulating CRD assurance practitioners.

We expect that the number of licensed CRD assurance practitioners under the climate-related disclosures regime would be less than the number of licensed auditors under the Auditor Regulation Act. This is because there would be fewer climate-reporting entities than FMC reporting entities needing assurance. The FMA's costs should therefore be somewhat reduced for regulating CRD assurance practitioners.

We do not know the exact costs for accredited bodies under the Auditor Regulation Act – either in terms of set up or ongoing operations. However, we note that the two professional accounting bodies (NZICA and CPA Australia) already have the required regulatory infrastructure in place to become accredited to regulate CRD assurance practitioners. This infrastructure was required for accreditation to regulate auditors under the Auditor Regulation Act. It is therefore likely to be cost and resource efficient for the professional accounting bodies to continue with a co-regulatory model for CRD assurance practitioners.

For new or developing professional bodies there would be much higher incremental costs. There would be the new staff costs for licensing, monitoring and review. There would also be costs associated with setting up an investigatory function for complaints, a disciplinary tribunal and appeals function from the disciplinary tribunal. These costs are likely to be significant and possibly prohibitive for a new professional body to absorb. Existing professional bodies with large membership numbers can spread their costs among their members and utilise their reserves. Small and newly established professional bodies do not have this option.

Disciplining members in particular can involve significant one-off costs. In the FMA's experience, accredited body costs for a disciplinary case can range from $10,000 – $15,000 for a simple breach and up to $1,000,000 for more complex cases. Costs may be incurred for taking disciplinary action, dealing with appeals and potentially for judicial review proceedings.

A likely minimum standard for accredited bodies under the co-regulation model is being financially sustainable, including having sufficient access to funds to accommodate reasonable but unforeseen expenditure demands. Given the potential costs associated with disciplining members, new professional bodies may find it challenging to meet this requirement.

15	Do you have any information about set-up and ongoing costs for new professional bodies to obtain the regulatory infrastructure required by the Auditor Regulation Act?

16	Do you agree that new professional bodies will incur much higher costs than professional bodies already accredited under the Auditor Regulation Act to become accredited under a new co-regulatory model for CRD assurance practitioners?

Regulator costs – direct regulation

Under this option there would be no direct professional body costs. All regulator costs would be met by the FMA (which is part funded by levies and fees). In our view, this is likely to be a more efficient approach than multiple professional bodies and the FMA incurring operational costs under the co-regulation model.

If the FMA takes on the direct regulation role there will be significant synergies with its existing regulatory role for financial advisers and auditors. As a rough estimate, ongoing costs are expected to be less than the cost of financial adviser regulation where the FMA monitors more than 600 fully licensed financial advisers and about 1200 financial advisers with a transitional licence. However, FMA costs are likely to be higher than those for the auditing regime due to the FMA undertaking the entire regulatory role rather than co-regulating.

Although we expect it to be efficient for the FMA to undertake the role of regulator, given processes and policies already in place, there is likely to be less difference in costs associated with disciplinary matters across the two regulatory options, i.e., there would not be a significant cost reduction if the FMA rather than a professional body meets the disciplinary costs.

Cost efficiencies of the three options

The status quo involves no direct costs. However, nothing is gained under the status quo. We take the view that co-regulation and direct regulation are both more cost efficient because both may lead to benefits (i.e., the benefits of occupational licensing) that exceed the costs imposed. In our view, direct regulation is more cost efficient when compared to the status quo than co-regulation. Direct regulation avoids similar operational costs being repeated across the professional bodies and the FMA.

17	Do you agree with our analysis of the efficiency criterion? If not, why not?

4.6 PRELIMINARY CONCLUSIONS AND PREFERRED OPTIONS

The status quo has some advantages over the two regulatory options. It is likely to be competitively neutral and it is arguably more flexible than the regulatory options. However, our preliminary view is that introducing an occupational licensing regime is justified because licensing will promote greater trust and confidence in the climate statements than the status quo. Having properly regulated CRD assurance practitioners goes directly to the issue of trust – particularly in light of our proposal to extend climate assurance from GHG emissions only to the whole of the climate statement (discussed in Chapter 5).

If occupational licensing is to be introduced, the question is how co-regulation and direct regulation perform when compared to the status quo. Our preliminary view is that direct regulation is the preferred option.

Direct regulation has advantages over co-regulation when considering whether these options enhance trust and confidence in the climate statements. This is due to the challenges inherent to a co-regulatory system discussed above. In particular, there is the potential for different standards to be applied by accredited bodies from different professions who are used to regulating in different ways.

In terms of the flexibility criterion, we consider that centralising the regulatory function via direct regulation will provide greater flexibility and future adaptability than co-regulation if the regime needs adjustments.

The main advantage of co-regulation is that it simplifies compliance for the two professional accounting bodies that are accredited under the Auditor Regulation Act for economies of scope and scale reasons. However, the big downside of co-regulation is its potential to act as a barrier to entry for non-accountants because of the extensive regulatory infrastructure required for accreditation and the cost of that infrastructure for new or small professional bodies.

We are concerned that co-regulation could exclude non-accountants from the market. Licensing systems should not exclude competent practitioners. When considering the competitive neutrality criterion, we take the view that direct regulation is the better option.

In relation to the efficiency criterion we also consider that it is cost efficient for the FMA to take on the direct regulatory role. Under the co-regulation model costs would be imposed across multiple professional bodies and the FMA. In some instances these costs would be repeated for example, all professional bodies would have the cost of running a licencing system.

18	Do you agree with our assessment of the three options? If not, why not?
19	Which option do you prefer and why?

SUMMARY OF OUR PRELIMINARY ASSESSMENT OF THE OPTIONS

	Option 1: Continue with the status quo	Option 2: Co-regulation modelled on the Auditor Regulation Act	Option 3: Direct regulation
Criterion 1: Effectiveness in enhancing trust and confidence in the climate statements (applied a multiplier of 2 to reflect higher weighting)	0 No change	+2 x 2 = 4 Significant improvement on the status quo	+2 x 2 = 4 Significant improvement on the status quo
Criterion 2: Flexibility	0 No change	-2 Not adaptable if changes required	-1 Centralised function provides some flexibility for future changes
Criterion 3: Competitive neutrality	0 No change	-2 May favour the accounting profession	-1 Closer to competitive neutrality
Criterion 4: Efficiency (cost proportionate to benefits)	0 No change	+1 Cost efficient but some operational costs repeated across regulators	+2 Cost efficient
Total	0 No change	Total = 1	Total = 4

Key:

+2 much better than doing nothing/the status quo
+1 better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- 1 worse than doing nothing/the status quo
- 2 much worse than doing nothing/the status quo

Chapter 5: Options for expanding the scope of assurance

We are considering whether to expand the scope of the assurance requirements from the current obligation to assure GHG emissions disclosures only, to assurance over all disclosures in the climate statement.

5.1 STATUS QUO

The CRD Act already contains an assurance requirement. From October 2024, the Act requires GHG emissions disclosures in the climate statements to be independently assured in accordance with assurance standards issued by the XRB. No other part of the climate statement is required to be assured.

We expect some climate reporting entities will be ready for, and voluntarily seek assurance over, their full climate statement earlier than others regardless of whether assurance is mandated.

There are currently no legislative requirements for which standards must be used for voluntary assurance. Standards issued by the XRB must be used for the mandated assurance over GHG emissions disclosures only. Therefore, if we continue with the status quo different reporting entities may use different assurance standards to undertake voluntary assurance.

It is likely some reporting entities will not seek assurance beyond what is required by the CRD Act. There is no mechanism to require further assurance without legislative change.

5.2 PROBLEM DEFINITION

Investors, regulators, customers, and employees are increasingly making decisions that factor in organisations' climate-related action or inaction. GHG emissions are an important factor to understand the impact of an organisation on the climate, and any related risks. However, draft Aotearoa New Zealand Climate Standard 1 proposes to require much broader disclosures than GHG emissions only. Disclosures are proposed to cover four thematic pillars which represent the core elements of how entities operate – Governance, Strategy, Risk Management, and Metrics and Targets (refer to figure 1 below which sets out the proposed reporting requirements in draft Aotearoa New Zealand Climate Standard 1).

Figure 1 Draft Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures

Disclosures covering each of these pillars will generate new information about financially material climate change risks and opportunities which can support more informed and accurate decision-making. To promote confident and informed participation in the financial markets, information disclosed must be trusted by primary users. As it stands, a substantial portion of disclosed information is not required to be assured, posing a potential risk to users' trust and confidence in those parts of climate statements.

Due to the inability to refer to an applicable standard to be used for voluntary reporting, it is unlikely a single high-quality climate assurance standard will be adopted under the status quo. Entities may instead use different standards or obtain assurance in ad hoc ways, undermining investors' ability to compare and make more informed decisions in the financial markets.

20	Have we described the status quo and problem definition correctly? If not, why not?

5.3 SUMMARY OF THE OPTIONS

We have identified the following four options which may address the problem:

1. Option 1: Continuing with the status quo
2. Option 2: A non-regulatory approach
3. Option 3: Extending the assurance requirement to cover the whole climate statement from October 2028.
4. Option 4: Extending the assurance requirement to cover the whole climate statement from October 2028 *and* empowering the XRB to stagger the introduction of assurance requirements prior to this date.

5.3.1 Option 1: Continuing with the status quo

If we continue with the status quo then only GHG emissions disclosures will be required to be assured. Assurance will not be mandated for any other part of the climate statement. The status quo has been described in more detail in section 5.1 above.

5.3.2 Option 2: A non-regulatory approach

The second option is not to regulate, but to focus on awareness raising, education, and supporting the development of assurance standards. This support could seek to encourage the improvement of climate reporting quality and the uptake of voluntary assurance over climate statements. A larger proportion of climate reporting entities may then voluntarily seek further assurance over other parts, or all, of their entire climate statement.

Alternatively, this non-regulatory approach could progress alongside regulatory options to complement legislative changes.

21	Do you have any suggestions for non-regulatory options government should support?

5.3.3 Option 3: Legislation to introduce extended assurance to cover the whole climate statement from October 2028

Option 3 is to widen the scope of mandatory assurance from GHG emissions disclosures only to the whole climate statement. This proposed change would expand assurance requirements to include an entity's climate-related governance, strategy, risk management, and non-GHG metrics and targets (refer to Figure 1 in the 'Problem definition' section above).

If option 3 was adopted, then we propose that full climate assurance engagements should be required to be made in accordance with assurance standards issued by the XRB. We also propose that this requirement would commence for climate reporting entities with accounting periods ending on or after seven years after Royal Assent of the CRD Act (i.e., 27 October 2028). Under this timeframe, we would expect the first fully assured climate statements to be lodged in 2029. Our reasoning for the October 2028 timeframe is discussed under the "Timing" heading below.

As the independent assurance standard setter, the XRB would be empowered to issue standards to be used for whole of climate statement assurance.

We also consider that this obligation should not be brought into force until the occupational licensing regime, discussed in Chapter 4, has commenced. In line with proposals to establish a regulatory regime for assurance practitioners, as we further extend assurance requirements, there is a need to ensure proficiency of auditors.

Timing

We propose a timeframe of requiring full assurance for financial years ending on or after October 2028 having considered feedback from the FMA, XRB, and assurance practitioners. We consider this timeframe to effectively balance the need for an effective climate-related disclosure regime promoting trust and confidence in the information disclosed, and the need to provide standard setters, climate reporting entities, and assurance practitioners with sufficient time to prepare for the changes. In coming to this conclusion, we also considered the matters set out below.

We are cautious of introducing further assurance engagement requirements too early. Entities may restrict information disclosed or become overly cautious with forward looking statements if assurance engagements are required too early, thereby restricting innovation. Because of this, it may be unhelpful to require further assurance in the initial years where climate reporting entities focus needs to be on improving the quality of reporting.

In the early years of the climate-related disclosure regime, assurance practitioners may not have the necessary tools and expertise to assure all information contained in a climate statement, particularly information that is qualitative and/or forward-looking. It is also important to enable time for multiple iterations of reporting to be undertaken so that areas requiring early attention from assurance standards setters and practitioners can be identified and prioritised. For these reasons, climate reporting entities may not be ready for full assurance prior to 2028.

The October 2028 date would enable the XRB to have undertaken a post-implementation review of NZ Climate Standards 1 – 3, which is anticipated to begin by December 2025. The XRB could make well informed decisions on assurance application based on learnings from this review process. In response to this review, there is also potential for climate standards themselves to change, making it challenging to assure against any new standards in the initial years.

The FMA will need time to issue findings and recommendations to climate reporting entities in response to their first years of climate reporting. These findings and recommendations will enable entities to make the necessary improvements before assurance requirements come into force. If broader assurance were introduced from October 2028, most climate reporting entities will have released five climate statements by this time.

Introducing a requirement for assurance of the whole climate statement from October 2028 should enable time for the issuance of bespoke assurance standards by the XRB and allow for the market to develop. The non-financial assurance market is expected to evolve considerably both domestically and globally by the end of 2028.

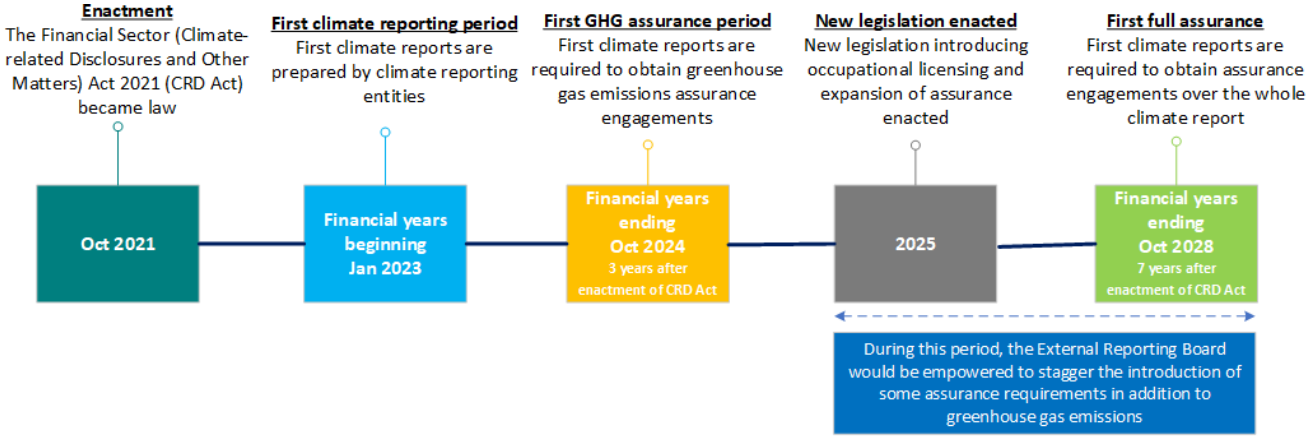
Alternatively, this timeframe may be overly cautious. The development of a licensing regime for assurance practitioners, international assurance standard developments, quality of climate reporting, capability of assurance practitioners, and expectations of primary users may rapidly evolve over the next few years. Under these circumstances, it may therefore be appropriate to introduce requirements for assurance over the whole climate statement at an earlier date.

22	What comments do you have on the proposal to require full assurance of the climate statement for accounting periods ending on or after October 2028?

5.3.4 Option 4: Extending the assurance requirement to cover the whole climate statement from October 2028 and empowering the XRB to stagger the introduction of assurance requirements

In addition to introducing a requirement for whole of climate statement assurance from October 2028, the XRB could be empowered to stagger the introduction of non-GHG emission assurance requirements prior to that date (see below for the proposed timeline for Option 4).

Figure 2 Potential timeline towards whole of climate report assurance



For instance, the XRB could be empowered to require some aspects of climate assurance to come into effect earlier than others e.g., assurance over an entity's climate-related governance and risk management may be required in an earlier accounting period than strategy. While some areas of governance and risk management assurance are already well established, other areas will be more difficult to obtain assurance over.

Enabling a staggered introduction of climate assurance requirements would be consistent with the existing approach to how the XRB is empowered to set standards. Under the CRD regime, the XRB may introduce staggered requirements for climate standards due to Section 19C of the FR Act. This approach is also enabled for staggering general financial reporting requirements through Section 20 of the FR Act.

The XRB could release a roadmap providing more detailed dates towards assurance of the whole climate report.

5.4 CRITERIA

In this chapter we use three criteria to assess the four options. We consider whether each option will provide:

1. effectiveness in achieving our objective i.e. enhancing trust and confidence in the climate statements (see part 1.2 of this consultation document)
2. flexibility
3. efficiency.

We consider that the first criterion (effectiveness in improving trust and confidence) is the most important and should carry the most weight. This criterion aligns directly with our objective in consulting with you about expanding the assurance requirement.

Our assessment of these options and preliminary conclusions about the preferred option are set out below.

23	Do you agree with the criteria we are using to assess the options? Do you consider that the effectiveness criterion should have the most weight or should they all have equal weight?

5.5 ASSESSMENT OF THE OPTIONS

5.5.1 Effectiveness in improving trust and confidence in the climate statements

The first criterion we have considered is whether each option will effectively improve trust and confidence in the climate statements. As noted in Chapter 4, if information in the climate statements is not trusted, then it will not be relied upon to make investment decisions. This means that the effects of climate change are less likely to be routinely considered in business and investment decisions and consequently investors may not redirect capital to more sustainable activities.

Status quo

The status quo relies on voluntary assurance to expand the assurance engagement and therefore promote trust and confidence. It is likely that various climate-reporting entities will seek voluntary assurance engagements. Entities may engage in voluntary assurance to differentiate their reporting to investors or in anticipation of future compliance requirements. This is because assurance provides a clear message of intent, commitment, and confidence to stakeholders.

There is already increasing pressure on companies to disclose decision-useful climate-related information because institutional investors, banks and insurers are increasingly viewing climate as a financial risk that needs to be managed. As a result, entities that do not seek independent assurance over their material climate-related risks and opportunities may find it difficult to refinance existing debt or raise new debt.

Despite this pressure, it is unclear how many entities would seek voluntary assurance. Early voluntary adopters may have concerns about competitive disadvantage. For example, voluntary assurance will increase an entity's costs and may result in more transparent disclosures being made to the market. This may disadvantage an entity undertaking voluntary assurance.

We are additionally concerned that it is unlikely a single high-quality climate assurance standard will be adopted under the status quo. The application of different standards may undermine investors' ability to compare and make more informed decisions in the financial markets.

Due to uncertainties over uptake of voluntary assurance and the lack of a single clear standard for assurance of climate statements, in our view, the status quo may lead to a lack of trust and confidence in the climate statements and inconsistent reporting between entities.

24	What level of trust and confidence do you think users will have in the climate statements under the status quo?

Non-regulatory option

The non-regulatory option may help to encourage the uptake of voluntary assurance engagements. It would build upon the status quo by further supporting climate reporting entities and assurance practitioners, while maintaining the benefit of providing more time for entities to develop their reporting and for primary users to indicate their preference for assurance.

However, although an improvement, for similar reasons to the status quo, relying on a non-regulatory option may lead to a lack of trust and confidence in the climate statements. This is due to the potential for inconsistent and incomplete assurance through the application of different standards, making it very challenging for users to compare disclosures made by different entities. Early voluntary adopters may additionally have concerns about competitive disadvantage. We therefore do not consider the non-regulatory option as a significant improvement on the status quo when considering the effectiveness criterion.

Extending the assurance requirement to cover the whole climate statement from October 2028

In our view, the expansion of assurance requirements would increase the value of the disclosures to users by enhancing trust and confidence in all the disclosures, rather than only GHG emissions.

Option 3 would also provide the opportunity to mandate which assurance standards must be complied with. In our view, it would be preferable to require the application of prescribed standards by any service provider of assurance engagements. Without prescribed standards there may be doubt and confusion about the integrity and reliability of reported information, and reduced comparability between disclosures. Mandated standards would improve trust and confidence.

Setting a timeframe for whole of climate statement assurance in legislation provides clarity by setting expectations of quality and direction of travel for climate reporting entities and assurance practitioners. Government intervention would raise expectations for climate reporting entities and assurance practitioners which should accelerate progress.

This approach offers certainty to the market while simultaneously providing a few years of lead-in time for entities to develop their climate reporting. During these years, climate reporting entities may be further encouraged to obtain voluntary assurance engagements in advance of future compliance requirements.

Introducing full assurance requirements represents a significant improvement on the status quo when considering whether each option effectively enhances trust and confidence in the climate statements.

Extending the assurance requirement to cover the whole climate statement from October 2028 and empowering the XRB to stagger the introduction of assurance requirements prior to this date

Full assurance could be introduced either with or without the possibility of earlier introduction of some assurance requirements, i.e., a 'staggered' approach. Bringing into force some assurance requirements over time would gradually improve the reliability of information, while providing a reasonable timeframe for climate reporting entities, assurance practitioners, and standard setters to prepare. The XRB could be empowered to introduce some of the assurance requirements prior to the date for full assurance.

If there is a staggered introduction of assurance requirements, the XRB would need to consult on the timing of their introduction and the relevant assurance standards. When introducing new standards, the XRB publicly engages to:

- understand where the proposed standard is likely to be needed and whether the proposed standard meets those needs for a New Zealand audience
- establish the pros and cons of adopting the standard in New Zealand
- explore any unintended consequences or risks arising from adopting the standard or potential drawbacks of not adopting it.

The *Financial Reporting Act 2013* (**FR Act**) empowers the XRB to issue standards, subject to certain requirements and constraints, including:

- ***Section 13***, which requires the XRB to act independently in performing its statutory functions and duties, and exercising its power;
- ***Section 22***, which requires the XRB to take reasonable steps to consult with those substantially affected by a proposed standard; and
- ***Section 25***, which states that standards issued by the XRB are secondary legislation. This means they are legislative instruments which are made under powers delegated by Parliament and are disallowable.

25	Do you agree with our assessment of the effectiveness criterion? If not, why not?

5.5.2 Flexibility

Non-financial reporting is a new endeavour for many climate reporting entities, and climate standards are rapidly developing globally, with reporting likely to evolve over the initial years. For assurance of the whole climate statement to be viable, climate reporting needs to meet a standard that would pass an independent assurance opinion.

As noted by the IAASB[21], the shift towards requiring assurance over all climate disclosures will be a journey. The data capture, information systems, and processes within many organisations needed to report reliably on all aspects of climate disclosures are in the process of maturing.

[21] https://www.iaasb.org/news-events/2022-06/balancing-urgency-and-effectiveness-international-sustainability-assurance-standards

While there are some existing climate-related disclosure assurance standards which may be appropriate for climate statement assurance, further work is required to develop a specific assurance standard for all climate-related disclosures. We do not currently have certainty over how climate statements should be assured.

For these reasons, we must consider whether our preferred option is sufficiently flexible.

Status quo

Not introducing full assurance will allow time for reporting to mature and climate assurance standards to develop. In the future, the proposal of requiring full assurance over climate statements could be reconsidered when these considerations are more settled.

The main advantage of the status quo is that it provides more time for climate reporting entities to develop their reporting and for primary users to indicate what parts of the assurance statement they want to see assured. The status quo is inherently flexible.

Non-regulatory option

For the same reasons as the status quo, the non-regulatory option is inherently flexible.

Extending the assurance requirement to cover the whole climate statement from October 2028

Introducing a requirement for full assurance from October 2028 would reduce flexibility while reporting and standards are still under development and circumstances may change.

Extending the assurance requirement to cover the whole climate statement from October 2028 and empowering the XRB to stagger the introduction of assurance requirements prior to this date

Implementing a staggered introduction of requirements would help to enable some flexibility in the years prior to 2028.

A staggered approach would be consistent with the proposed staggered implementation of climate standards requirements within the XRB's climate standards. The CRD Act is silent about the content of climate standards, for example, it does not refer to TCFD or when certain climate disclosure requirements might come into force. This is because these are matters for the XRB to independently determine.

Empowering the XRB to modify assurance requirements through staggered introduction would enable more flexibility in response to changing circumstances. It would enable the XRB to set standards that are within the range of international best practice and modify them as bespoke climate assurance standards are created, best practice is established, and the assurance provider market evolves.

26	Do you agree with our analysis of the flexibility criterion? If not, why not?

5.5.3 Efficiency

A regulatory system should deliver, over time, a stream of benefits or positive outcomes that outweigh any costs or potential negative outcomes. We should not introduce a new regulatory obligation unless we are satisfied it will deliver net benefits for New Zealanders. While there is a need to improve trust and confidence in the CRD regime, we must minimise regulatory obligations on regulated parties.

Status quo

The status quo does not involve any increased regulation or costs for climate reporting entities or assurance practitioners. Climate reporting entities may voluntarily obtain assurance over the whole of the climate statement.

Non-regulatory option

Similar to the status quo, the non-regulatory option would not involve any increased regulation for climate reporting entities or assurance practitioners. Depending on which non-regulatory options were introduced, there may be increased cost for certain government organisations. For example, the FMA may need to increase focus on awareness raising and oversight of potentially misleading information.

Extending the assurance requirement to cover the whole climate statement from October 2028

Introducing further assurance requirements beyond GHG emissions would impose additional regulatory burden compared to options 1 and 2. The question then is whether the net benefits are sufficient to justify the burden.

We expect some climate reporting entities to obtain voluntary assurance engagements over the remainder of the climate statement, i.e., in addition to GHG emissions disclosures. Those that do not would be required to undertake additional

assurance which would require entities to improve the quality of underlying information and reporting, and employ assurance practitioners.

Due to climate assurance standards for disclosures based on TCFD recommendations still being under development, and uncertainties over assurance practitioner market developments by 2028, we do not have much information about the additional cost of obtaining full assurance.

We consider the proposed timeframes to balance the increased cost to a certain extent by providing a significant lead in time. Additionally, while considering introducing new standards to be issued for full climate statement assurance, the XRB must assess whether any additional climate assurance requirements are appropriate for New Zealand entities and explore any unintended consequences or risks arising from adopting assurance standards. These provisions help to ensure any new assurance requirements will not be unduly burdensome on climate reporting entities.

For these reasons, we believe the increased regulatory burden of full assurance when compared to the status quo is appropriate considering the likely benefits to the CRD regime. Full assurance is likely to improve the trust and confidence in climate statements and therefore improve their usefulness.

27	Do you have any estimates of cost for obtaining full assurance over a Task Force on Climate-related Financial Disclosures based report?
28	Do you have any estimates of cost for obtaining assurance over GHG emissions only?

Extending the assurance requirement to cover the whole climate statement from October 2028 and empowering the XRB to stagger the introduction of assurance requirements prior to this date

In a similar manner to introducing full assurance through legislation, a staggered introduction of requirements would impose additional cost compared to options 1 and 2.

We consider the expected gradual pace of staggered introduction of requirements would provide a reasonable timeframe for climate reporting entities, assurance practitioners, and standard setters. The XRB would additionally be provided with the flexibility to modify climate assurance standards and introduce requirements in response to changing circumstances and market conditions.

29	Do you agree with our analysis of the efficiency criterion? If not, why not?
30	Do you have any comments on potential cost impacts of the preferred option and who would be impacted?

5.6 PRELIMINARY CONCLUSION AND PREFERRED OPTION

Our preliminary conclusion is that there may be a lack of trust and confidence in the climate statements under the status quo and non-regulatory options. These options may additionally cause confusion through inconsistent assurance standard application leading to a lack of comparability between climate reporting entities.

Full independent assurance on the other hand would effectively enhance trust and confidence through increased credibility over the whole climate statement. It would additionally create a level playing field of requirements across all entities and standardise the use of climate assurance standards. This would help to generate consistent information and improve comparability, enabling better informed investment decisions based on credible information, leading to a more efficient allocation of capital with higher levels of confidence.

It is therefore likely that independent assurance over the whole climate statement may eventually be necessary. We do not consider independent assurance of only some parts of the climate statement to be sufficient in the long term.

Option 4 of introducing full assurance through a set date in legislation, in addition to enabling a staggered introduction of assurance requirements, is the preferred option due to the certainty over the direction of travel provided to climate reporting entities, assurance practitioners, standards setters, and the regulator.

Without setting a timeframe through regulatory expectations, the assurance market will take longer to develop and available resourcing of assurance standard development by standards setters may also be lower, resulting in slower standard issuance.

We consider introducing full assurance requirements from October 2028 provides a sufficient lead time for climate reporting entities to develop their reporting, the issuance of bespoke assurance standards, and enable assurance practitioners to upskill while minimising regulatory obligations. By this time, an occupational licensing regime (discussed in Chapter 4) may also be implemented.

We additionally consider that empowering the XRB to require some aspects of climate assurance to come into effect earlier than others would enhance trust and confidence in the climate statements at an earlier date while maintaining flexibility in a changing environment.

Government intervention would improve trust and confidence, leading to increased expectations for climate reporting entities and assurance practitioners which should accelerate progress. Largely or solely relying on market forces may be too risky, given that urgent action is needed to invest in new technologies, energy efficiency and clean energy sources, and disinvest away from assets with significant physical risks, high GHG emitting products, processes, and activities.

31	Do you agree with our assessment of the four options? If not, why not?
32	Should there be mandatory assurance requirements in relation to the whole climate statement?
33	What are your views about a staggered implementation of assurance requirements prior to assurance in relation to the whole climate statement?
34	Should the XRB be empowered to stagger assurance requirements?

SUMMARY OF OUR PRELIMINARY ASSESSMENT OF THE OPTIONS

	Option 1: Continuing with the status quo	Option 2: A non-regulatory approach	Option 3: Extending the assurance requirement to cover the whole climate statement from October 2028	Option 4: Extending the assurance requirement to cover the whole climate statement from October 2028 and staggered introduction of climate assurance requirements prior to this date
Criterion 1: Effectiveness in enhancing trust and confidence in the climate statements (applied a multiplier of 2 to reflect higher weighting)	0 No change	+ 1 x 2 = 2 A non-regulatory approach would encourage voluntary assurance engagements and support development of the climate assurance market.	+ 2 x 2 = 4 Expanding assurance requirements and mandating climate assurance standards would improve the usefulness of information reported through climate statements.	+ 2 x 2 = 4 In addition to the benefits of option 3, a staggered approach may result in some independent assurance being required sooner.
Criterion 2: Flexibility	0 No change	0 No change	- 2 Setting a timeframe for full assurance would reduce flexibility.	- 1 Empowering the XRB to modify assurance requirements for climate statements in response to changing circumstances may offset some of the flexibility lost to a set timeframe.
Criterion 3: Efficiency	0 No change	0 No change	+ 1 Introducing further assurance requirements may increase some costs for entities. We believe this increase is justified by creating a net benefit considering the improvements in trust and confidence and therefore usefulness of climate statements.	+ 1 Staggering some additional independent assurance requirements before October 2028 may increase some costs for entities. However, this increase is likely to result in a net benefit considering the improvements in trust and confidence and therefore usefulness of climate statements.
Total	0 No change	Total = 2	Total = 3	Total = 4

Key:
+ 2 much better than doing nothing/the status quo
+ 1 better than doing nothing/the status quo
0 about the same as doing nothing/the status quo
- 1 worse than doing nothing/the status quo
- 2 much worse than doing nothing/the status quo

Chapter 6: Recap of the questions

OBJECTIVE

1	Do you agree that we have set the right objective for considering Issues 1 and 2?

OCCUPATIONAL LICENSING FOR CRD ASSURANCE PRACTITIONERS

2	Have we described the status quo and problem definition correctly? If not, why not?
3	Do you have any comments about how we have described the co-regulatory model under the Auditor Regulation Act?
4	If co-regulation is the preferred option should we depart from any of the Auditor Regulation Act requirements? If so, which ones and why?
5	If direct regulation is the preferred option do you agree that the FMA should be the regulator? If not, why not and who else should it be?
6	Do you agree that the hybrid model is not viable? Why/why not?
7	Do you agree with our proposal that the FMA will set the minimum standards for CRD assurance practitioners? Why/why not?
8	Do you agree that we should only regulate the CRD assurance practitioner who takes overall responsibility for the assurance engagement? Why/why not?
9	Have we considered the best options (continuing with the status quo, co-regulation and direct regulation) to assess? If not, what other options should we consider?
10	Do you agree with the criteria we are using to assess the options? Do you consider that the effectiveness criterion should have the most weight or should they all have equal weight?
11	What level of trust and confidence do you think users will have in the climate statements under the status quo?
12	Do you agree with our assessment of the effectiveness criterion? If not, why not?
13	Do you agree with our analysis of the flexibility criterion? If not, why not?
14	Do you agree with our analysis of the competitive neutrality criterion? If not, why not?
15	Do you have any information about set-up and ongoing costs for new professional bodies to obtain the regulatory infrastructure required by the Auditor Regulation Act?
16	Do you agree that new professional bodies will incur much higher costs than professional bodies already accredited under the Auditor Regulation Act to become accredited under a new co-regulatory model for CRD assurance practitioners?
17	Do you agree with our analysis of the efficiency criterion? If not, why not?
18	Do you agree with our assessment of the three options? If not, why not?
19	Which option do you prefer and why?

EXPANDING THE SCOPE OF ASSURANCE

20	Have we described the status quo and problem definition correctly? If not, why not?
21	Do you have any suggestions for non-regulatory options government should support?
22	What comments do you have on the proposal to require full assurance of the climate statement for accounting periods ending on or after October 2028?
23	Do you agree with the criteria we are using to assess the options? Do you consider that the effectiveness criterion should have the most weight or should they all have equal weight?
24	What level of trust and confidence do you think users will have in the climate statements under the status quo?
25	Do you agree with our assessment of the effectiveness criterion? If not, why not?
26	Do you agree with our analysis of the flexibility criterion? If not, why not?
27	Do you have any estimates of cost for obtaining full assurance over a Task Force on Climate-related Financial Disclosures based report?
28	Do you have any estimates of cost for obtaining assurance over GHG emissions only?
29	Do you agree with our analysis of the efficiency criterion? If not, why not?
30	Do you have any comments on potential cost impacts of the preferred option and who would be impacted?
31	Do you agree with our assessment of the four options? If not, why not?
32	Should there be mandatory assurance requirements in relation to the whole climate statement?
33	What are your views about a staggered implementation of assurance requirements prior to assurance in relation to the whole climate statement?
34	Should the XRB be empowered to stagger assurance requirements?

Glossary

Climate reporting entity

An entity with climate-related reporting obligations under the CRD Act. Climate reporting entity is defined in Part 7A of the Financial Markets Conduct Act 2013.

CRD

Climate-related disclosures

CRD Act – see Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

CRD Bill

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill

CRD assurance practitioner

Person carrying out assurance over disclosures in the climate statements.

European Financial Reporting Advisory Group (EFRAG)

A private not-for-profit association established with the encouragement of the European Commission to serve the public interest. EFRAG's member organisations are European stakeholder and national organisations with an interest in financial and corporate reporting and a commitment to EFRAG's public interest mission.

External Reporting Board (XRB)

An independent Crown entity, constituted under Part 2 of the Financial Reporting Act 2013, that issues legally binding:

- financial reporting and climate standards for New Zealand reporting entities
- auditing, assurance and ethical standards that contribute to the system for regulating auditors and assurance providers.

Financial Markets Authority (FMA)

An independent Crown entity, constituted under Part 2 of the Financial Markets Authority Act 2011, that promotes confident and informed participation in New Zealand financial markets.

FMC Act

The Financial Markets Conduct Act 2013

Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021

Legislation that introduced climate-related reporting obligations for large listed issuers, banks, insurers and investment scheme managers. It amended the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

FR Act

The Financial Reporting Act 2013

GHG

Greenhouse gas

Greenhouse Gas (GHG) Protocol

The GHG Protocol provides standards, guidance, tools and training for businesses and governments to measure and manage climate-warming emissions.

Greenwashing

Misleading, exaggerated or unsubstantiated environmental claims made by businesses or investment funds about their products, activities or performance.

International Auditing and Assurance Standards Board (IAASB)

The IAASB is an independent standard-setting body that sets international standards for auditing, assurance and quality control.

International Financial Reporting Standards (IFRS) Foundation

A not-for-profit public interest organisation established to develop, promote and facilitate the adoption of a single set of high-quality, understandable, enforceable and globally accepted accounting standards.

International Sustainability Standards Board (ISSB)

A board established by the IFRS Foundation with the aim of delivering a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital markets participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

Sustainability reporting

Sustainability reporting is a generic term for reporting systems that are aimed at providing investors with information to assist in evaluating corporate behaviour and future financial performance. Although there is no internationally agreed definition, sustainability reporting can cover such matters as:

- waste and pollution, resource depletion, deforestation, GHG emissions and climate change
- employee relations and diversity, working conditions and health and safety
- board structure and performance, director and executive remuneration, executive or company diversity, donations and political lobbying.

"Sustainability reporting" and "Environmental, Social and Governance (ESG) reporting" are sometimes used interchangeably.

Task Force for Climate-related Financial Disclosures (TCFD)

A private sector-led group convened by the Financial Stability Board in 2015 to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders and insurance underwriters in understanding material risks.

XRB – see External Reporting Board.

Appendix 1. Climate and sustainability reporting progress

INTERNATIONAL NON-FINANCIAL REPORTING FRAMEWORKS AND STANDARDS

There have been several major developments in relation to non-financial reporting in recent years, including:

- The publication, in June 2017, of the final report of the TCFD. The recommendations of the TCFD are considered international best practice for climate-related disclosures[22].
- Decisions by several international sustainability and climate organisations to align their reporting frameworks and standards with TCFD.
- A decision, in November 2021, by the International Financial Reporting Standards (**IFRS**) Foundation Trustees to establish the International Sustainability Standards Board (**ISSB**). The ISSB's objective is to establish a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs.[23]
- Increased coordination between, and consolidation of, international non-financial reporting and standard setting organisations.

In March 2022, the ISSB launched consultation on its first two proposed standards, one on general sustainability-related disclosure requirements, the other on climate-related disclosure requirements. Submissions closed on 29 July 2022.[24]

OVERSEAS SUSTAINABILITY AND CLIMATE-REPORTING DEVELOPMENTS

Governments and regulators are increasingly responding to the growing demand for companies to disclose sustainability and climate information to their investors by considering the options for mandatory climate and sustainability disclosures.

TCFD-based climate disclosures have or are being introduced by governments or securities exchanges in Canada, Hong Kong, Japan, Singapore, Switzerland, the United Kingdom and the United States. The European Union and the United Kingdom have outlined proposals for sustainability reporting that would be underpinned by mandatory standards.

United Kingdom

The United Kingdom is currently phasing-in mandatory climate-related disclosures aligned to the TCFD framework. The reporting obligations commenced in November 2021 for premium listed companies. In April 2022, they were extended to other listed companies, large private companies and financial institutions.[25]

In July 2021, the Chancellor of the Exchequer announced that integrated Sustainability Disclosure Requirements will be introduced. In October 2021, the Government stated that:

- the disclosure requirements will be introduced incrementally and apply to UK-listed companies, banks, insurers, investment scheme managers and investment products
- the sustainability standards to be developed by the ISSB will provide the baseline for reporting information that is material to investors
- firms will also be required to provide information on how they impact the environment, in accordance with the UK's Green Taxonomy[26], which is currently being developed.

To deliver this the Government will create a mechanism, through legislation, to adopt and endorse ISSB-issued standards for use in the UK. Regulators will set out sector-specific requirements through their existing rule-making processes.[27]

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[22] TCFD, *Recommendations of the Task Force on Climate-related Financial Disclosures*, June 2017 https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf

[23] IFRS - Path to global baseline: ISSB outlines actions required to deliver global baseline of sustainability disclosures

[24] IFRS - ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures

[25] UK Government, 29 October 2021, *UK to enshrine mandatory climate disclosures for largest companies in law* https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law

[26] The taxonomy has six environmental objectives. The first two, which are being consulted on in 2022, are climate change mitigation and climate change adaptation. The four remaining objectives are sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems.

[27] HM Treasury et al, October 2021, *Greening Finance: A Roadmap to Sustainable Investing*, October 2021, pp.11-19, 23 & 36-38 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

The European Union

European Union Directive 2014/95/EU[28], or the Non-Financial Reporting Directive (**NFRD**) as it is more commonly known, requires large companies to publish reports on the social and environmental impacts of their activities. In April 2021, the European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (**CSRD**) that would amend the NFRD. Among other things, the CSRD:

- would introduce more detailed reporting requirements relating to environmental rights, social rights, human rights and governance factors
- would require reporting in accordance with mandatory EU sustainability reporting standards
- would require assurance of the reported information by an accredited independent auditor or certifier
- provides for the European Financial Reporting Advisory Group (**EFRAG**) to develop draft sustainability reporting standards.[29] EFRAG published the first set of draft standards on 29 April 2022. Submissions closed on 8 August 2022.[30]

In June 2022, the European Council and European Parliament reached a "provisional political agreement" in support of the CSRD. Under the agreement, the CSRD would apply to all listed or unlisted European firms with more than 250 employees, €40 million revenue and/or €20 million assets. It will also apply to non-European companies that generate turnover of €150 million in the EU. Implementation will be phased in from 2024 to 2028.[31]

United States

On 21 March 2022, the Securities and Exchange Commission (**SEC**) released draft rule changes that would require most SEC registrants to include climate-related disclosures in their Securities Act registration statements and Exchange Act periodic reports. The objective is to provide investors with consistent, comparable and decision-useful information.

The proposal is based on, but not identical to, the TCFD framework and GHG Protocol. It includes disclosures about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics, including GHG emissions. It also proposes a phase-in period for all registrants, with the compliance date dependent on the registrant's filer status.[32] Scope 1 and 2 GHG emissions disclosures would require independent attestation, but not until the second year that the registrant is subject to the disclosure requirements.

It does not take a principles-based approach, instead proposing extensive and specific disclosures. Submissions on the proposed rule changes closed on 17 June 2022.[33]

[28] Directive 2014/95/EU, 22 October 2014 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095
[29] EFRAG, 2021 https://www.efrag.org/Activities/2010051123028442/Sustainability-reporting-standards-roadmap?AspxAutoDetectCookieSupport=1#
[30] EFRAG, 2022 https://www.efrag.org/lab3
[31] European Council, June 2022 New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament - Consilium (europa.eu)
[32] SEC, 21 March 2022, *SEC proposes rules to enhance and standardize climate-related disclosures for investors* https://www.sec.gov/news/press-release/2022-46
[33] SEC, 9 May 2022, *SEC extends comment period for proposed rules on climate-related disclosures, reopens comment period for proposed rules regarding private fund advisers and Regulation ATS,* https://www.sec.gov/news/press-release/2022-82

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