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Proposed guidance and expectations for keeping proper climate-related disclosure records

This guidance note is for entities that have climate-related disclosure obligations under Part 7A of the Financial Markets Conduct Act 2013. It is intended to help climate reporting entities (CREs) to meet their statutory requirement to keep proper climate-related disclosure records at all times.

About FMA guidance

Our guidance:

- 1) explains when and how we will exercise specific powers under legislation
- 2) explains how we interpret the law
- 3) describes the principles underlying our approach
- 4) gives practical examples about how to meet obligations.

Guidance notes: provide guidance on a topic or topic theme. Typically we will seek industry feedback via a public consultation paper or more targeted consultation before we release a guidance note.

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Disclaimer: This guidance note does not constitute legal advice. We encourage you to seek your own professional advice to find out how the legislation discussed and any other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples are provided purely for illustration. They are not exhaustive and are not intended to impose or imply particular rules or requirements.

Document history

This version (version 1.0) was issued for consultation in June 2023

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Overview

Introduction

The purpose of mandatory climate-related disclosures¹ (CRD) as described in the explanatory note to the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill first reading² is to:

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

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 amended the Financial Markets Conduct Act 2013 (FMC Act), the Financial Reporting Act 2013, and the Public Audit Act 2001.

Section 19B of the Financial Reporting Act 2013³ states that the purpose of climate standards is to provide for, or promote, climate-related disclosures, in order to:

- encourage entities to routinely consider the short-, medium-, and long-term risks and opportunities that climate change presents for the activities of the entity or the entity's group; and
- enable entities to show how they are considering those risks and opportunities; and
- enable investors and other stakeholders to assess the merits of how entities are considering those risks and opportunities.

The External Reporting Board (XRB) issued Aotearoa New Zealand Climate standards on 14 December 2022. They include two objectives;

- In providing a consistent framework for entities to consider the climate-related risks and climate-related opportunities that climate change presents for their activities over the short, medium and long term, the objective of this Standard is to enable primary users to assess the merits of how entities are considering those risks and opportunities, and then make decisions based on these assessments.
- The ultimate aim of Aotearoa New Zealand Climate Standards is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

¹ Also referred to as 'climate statements'.

² [Financial Sector \(Climate-related Disclosures and Other Matters\) Amendment Bill 30-1 \(2021\), Government Bill Explanatory note – New Zealand Legislation](#)

³ [Financial Reporting Act 2013 No 101 \(as at 27 October 2022\), Public Act Climate standards – New Zealand Legislation](#)

Purpose of this guidance

This guidance document sets out the principles and expectations relating to creating, keeping, and maintaining proper records to provide evidence that a CRE's climate statements comply with:

- the legislative requirements in Part 7A of the FMC Act
- the reporting framework requirements set out in the Aotearoa New Zealand Climate Standards (collectively referred to as the 'CRD framework'):
 - Aotearoa New Zealand Climate Standard 1 (NZ CS 1)
 - Aotearoa New Zealand Climate Standard 2 – Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2)
 - Aotearoa New Zealand Climate Standard 3 – General Requirements for Climate-related Disclosures (NZ CS 3).

The section [Proposed requirements in the draft regulations](#) on pages 7 to 9 of this document also sets out guidance on the [record-keeping regulations exposure draft](#) (the draft Regulations) which was published by MBIE on 21 June 2023. The Regulations may change following MBIE's consultation. We will update this section once the final Regulations are made.

For climate statements to be relied upon to achieve the purpose of the climate-related disclosures regime (referred to above), they must be supported by proper records. Records support the accuracy and legitimacy of climate statements, including substantiating how the CRD framework has been applied. Proper records help CREs and their directors demonstrate compliance with their legislative duties and obligations.

This document is primarily intended for CREs, their directors and other authorised bodies and persons in accordance with section 461Y of the FMC Act.⁴ Other parties, such as assurance practitioners, may also be interested in this guidance.

⁴ The relevant parties in respect of section 461Y of the FMC Act are detailed on page 6 of this document.

Our expectations

The Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) is responsible for the independent monitoring and enforcement of the CRD regime. As part of our monitoring, we may inspect the underlying records that support a CRE's climate statements to verify that the records comply with the record-keeping requirements in Part 7A of the FMC Act and any regulations made under that Act. These records also provide evidence that a CRE's climate statements comply with the climate-related disclosure framework.⁵

Focus for CREs

CREs and their governance bodies should develop climate reporting policies that include processes and controls to produce and retain records to substantiate both the information disclosed in the climate statements, and that the disclosures comply with the CRD framework.

CREs should consider the information that is required to comply with the climate-related disclosures framework, where to get that information, how to analyse it, and how to collect and store it, to ensure they have an effective process for preparing these disclosures.

Our focus

In the early stages of the CRD regime, we will focus primarily on serious misconduct. This could include, but is not limited to, situations where CREs fail to produce and retain CRD records, or where those records are materially incorrect, incomplete, or falsified. The concept of materially incomplete records refers to situations where CREs have failed to produce and retain records to substantiate their climate-related disclosures or where their records are missing material information and therefore can only partially substantiate their climate-related disclosures.

The CRD regime is novel, and the market has low maturity for managing data sources and systems for collecting and reporting on climate-related information. This may mean that not all information is available at the start of the regime. CREs will have to reflect this in their disclosures by explaining what information wasn't available and how they addressed the issue of incomplete information.

During our monitoring reviews, we will look at whether CREs have made reasonable efforts to identify, obtain, understand, and store appropriate records to support the disclosures. We expect that CRE record-keeping should include sufficient documentation that provides evidence to support all information disclosed.

It is important that all material inputs underpinning disclosures around exclusions, estimates, assumptions and limitations are retained as part of record-keeping obligations. Without proper supporting documentation, it can be unclear whether a CRE and its directors have sufficiently considered, understood, and reviewed their disclosures, and whether these are based on reasonable and well-considered inputs.

⁵ In accordance with section 461V(1)-(2) of the FMC Act, proper CRD records enable CREs to ensure that their climate statements comply with the climate-related disclosure framework.

Requirement to keep proper records

This section details the legislative requirements relating to CRD records under Part 7A of the FMC Act as background for this guidance note.

Section 461V: Climate reporting entities must keep proper CRD records

- (1) Every climate reporting entity under section 461O (1) must ensure that there are kept at all times records that will enable the climate reporting entity to ensure that the climate statements of the climate reporting entity comply with the climate-related disclosure framework.
- (2) Every manager that is a climate reporting entity in respect of a registered scheme must ensure that there are kept at all times records that will enable the manager to ensure that the climate statements relating to the registered scheme comply with the climate-related disclosure framework.
- (3) Every climate reporting entity must establish and maintain a satisfactory system of control of the records that it is required to keep under this section.
- (4) In this section, -
 - climate statements of the climate reporting entity** means the climate statements or group climate statements that are required to be prepared under any of sections 461Z to 461ZB
 - climate statements relating to the registered scheme** means the climate statements of the separate funds of the scheme or the climate statements of the scheme that are required to be prepared under section 461ZC.

Section 461W: Manner in which CRD records to be kept

- (1) Every climate reporting entity must keep the CRD records in the prescribed manner (if any).⁶
- (2) A climate reporting entity that contravenes this section commits an offence and is liable on conviction to a fine not exceeding \$50,000.
- (3) The offence in this section is an infringement offence (see subpart 5 of Part 8).

Section 461X: Period for which CRD records to be kept

CRD records, or copies of them, must be retained by the climate reporting entity for a period of at least 7 years after the date the records are made.

Section 461Y: Inspection of CRD records

- (1) Every CRE must make the CRD records available, in the prescribed manner, at all reasonable times for inspection without charge to –
 - (a) the directors of the climate reporting entity; and
 - (b) any supervisor (if the climate reporting entity is an issuer of debt securities or the manager of a registered scheme) and
 - (c) the FMA; and
 - (d) any other persons authorised or permitted by an enactment to inspect the CRD records of the climate reporting entity or scheme.
- (2) A climate reporting entity that contravenes this section commits an offence and is liable on conviction to a fine not exceeding \$50,000.
- (3) The offence in this section is an infringement offence (see subpart 5 of Part 8).

⁶ The manner prescribed will be detailed in the relevant record-keeping regulations. An exposure draft of these regulations (the draft Regulations) was released on 21 June 2023.

Key principles and considerations for keeping proper records

This section provides an overview of the key principles and considerations that underpin the regulatory requirements for keeping proper records. It is split into two sections:

1. Proposed requirements in the draft Regulations
2. General principles and considerations

Proposed requirements in the draft Regulations

If made, the proposed requirements in the draft Regulations will apply from the date the Regulations come into force. The exception to this is the transitional exemption for records kept by another person; refer to our comments on draft Regulation 252D below for more detail.

The draft Regulations currently include no requirements in respect of the location in which CRD records must be kept. However, MBIE is seeking views on whether this should be included in the final Regulations as part of their consultation.

1. CRD records must be readily identifiable and comprehensible (draft reg 252A)

“*Readily identifiable*” requires that CREs keep “*CRD records in a way that... ensures they can be identified and produced for inspection within a reasonable period of time following a request by a person referred to in section 461Y of the [FMC] Act*”. This means that CRD records should be easy to access, kept in an organised manner, and in a form that can be easily produced for others to inspect.

To meet this requirement, CREs should consider:

- the type of record (e.g. invoice, agreement, spreadsheet, workpaper, technical paper, supporting data, minutes of a meeting); and
- whether it is in a format that can be effectively shared, including making it available for inspection. CREs should consider how and where records are kept: paper (hard copy) or electronic file (saved on a computer, drive, or any other media). When keeping any records in paper form (hard copy), CREs should consider creating a permanent file in an electronic form for safety and back-up purposes.

If a CRD record is a workpaper document (e.g. a spreadsheet) or linked to other records, ensure any formulas, references, and hyperlinks (to information either within or outside of the document) remain unbroken and always work. If quantitative models have been used, consider the format in which the model can best be shared for inspection.

To support easy and timely access, entities should consider maintaining a central repository for all records as part of their control system. This will minimise risk and support consistency and continuity.

“*Comprehensible*” requires that CRD records are kept in a way that “*reasonably enables that person to ascertain whether the records comply with section 461V of the [FMC] Act*”. This legislative section requires that CRD records provide evidence that a CRE’s climate statements comply with the CRD framework.

To meet this requirement, CRD records need to:

- have a connection or nexus with the corresponding disclosures;
- include all information that is material to the disclosure they underpin; and
- are free from material error or misstatement.

To support this requirement, CRD records should be written in a way that is easy to understand and interpret without previous knowledge, by anyone who uses and/or is entitled to inspect those records.⁷ This extends to any considerations, inputs and assumptions used as part of the CRD reporting process (for example, forward-looking information).

2. CRD records must be kept in English or te reo Māori (draft reg 252B)

CRD records must be kept “*in a written form in English or te reo Māori ...or in a form or manner in which they can be easily accessible and convertible into a written form in English or te reo Māori*”.

3. CRD records must be made available in accordance with request (draft reg 252C)

CRD records must be made “*available to a person referred to in section 461Y of the [FMC] Act in accordance with a written request from that person*” and “[T]he request may specify a time frame or manner (or both) in which the CRD records are to be made available”. A CRE “*must make the CRD records available in the specified time frame and manner unless it is unreasonable to do so, in which case it must make the CRD records available as soon as is practicable and in a reasonable manner*”.

The FMA expects to request records in a standardised, regular format once our monitoring approach has settled into a ‘steady state’ of proactive risk-based sampling and more detailed review procedures.⁸

4. CRD records kept by another person (draft reg 252D)

“*If a CRE arranges for any of its CRD records to be kept by another person, it must ensure that the other person is under all legal obligations necessary to ensure the climate reporting entity can comply with its obligations to keep and make available CRD records in accordance with the [FMC] Act and these regulations*”.

When engaging a third party, CREs should ensure that:

- all material data on how the information used by the third party was obtained, and the models and assumptions used, are included in the information from the third-party provider; and
- all records produced by a third-party provider remain accessible for the timeframe prescribed in section 461X of the FMC Act, irrespective of whether the contractual relationship with the third party has expired.

⁷ Section 461Y of the FMC Act lists the relevant parties that CREs must make their CRD records available to if requested.

⁸ Refer to the [Climate-related disclosures monitoring plan 2023-2026](#).

To ensure that record-keeping requirements are met when using a third-party provider, we recommend that CREs undertake a due diligence process to check that the record-keeping systems and processes of a third party will meet those requirements. CREs should also consider incorporating record-keeping and data access requirements within any written terms of engagement (if relevant). We have released an information sheet [Climate-related disclosures regime and the use of third-party providers](#) that provides guidance for CREs that are considering engaging a third-party provider to deliver services for the CRD regime.

The draft Regulations include a proposed transitional provision to the effect that draft Regulation 252D does not apply to a CRE in relation to any of its records kept by a third party under a contract, or other arrangement, entered into before the commencement of the Regulations (if made).⁹

However, this transitional relief will cease to apply to a contract, or other arrangement, from the earlier of the following:

- the date the contact or other arrangement is varied or renewed; or*
- 2 years after the commencement of the Regulations (if made).*

General principles and considerations

5. CRD records must provide evidence of materiality considerations

Consideration of materiality is fundamental to the preparation of climate statements. In accordance with the Aotearoa New Zealand Climate Standards, information must be disclosed if it is material. This is defined in NZ CS 3:

Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of a CRE's CRDs.¹⁰

Records provide evidence that a CRE has appropriately considered materiality in the preparation of its climate statements. The records that document a CRE's materiality judgements will vary depending on quantitative and qualitative considerations. They could include a distinct materiality assessment document or individual judgements that are integrated into supporting records (e.g. within file notes and workpapers). This may include justification for information that the CRE determined was immaterial for CRD reporting purposes.

Documenting the appropriate level of detail on materiality judgements will provide evidence that the CRE's disclosures contain information material to the primary users and ensure the rationale can be produced, should the FMA require it.

⁹ Specifically the introduction of Part 9 in Schedule 1 in the draft Regulations.

¹⁰ Paragraph 28, NZ CS 3, and NZ CS 3 Paragraphs 27-39 for further guidance on materiality.

6. CRD records must be maintained within an effective system of controls

As required by section 461V (3) of the FMC Act, CREs must maintain an effective system of internal controls that underlies the compilation of CRE records. Control processes should support the integrity, accuracy, and timeliness of records and reporting systems. Internal controls should include evaluating and testing, oversight, and governance. Control processes for CRD records should be documented.

CREs should regularly evaluate and monitor control processes for records. This includes governance bodies regularly receiving and reviewing reports about internal control processes, including any deficiencies, risks and steps taken to manage them.

7. CRD records must have appropriate protection and safeguards

To support the requirement in section 461V (3) of the FMC Act in respect of controls over CRD records, CREs should have adequate safeguards and contingency plans in place for keeping and maintaining records, including back-up copies. As part of this, CREs should include authorisation policies on altering records. These plans should be regularly reviewed and updated.

CREs should also consider having a strategy and governance structure in place to manage cyber risk that encompasses CRE record-keeping and associated information management systems. The FMA has issued a thematic review report on [Cyber resilience in FMA regulated financial services](#); as well as an [information sheet on cyber security and operational systems resilience](#) for market services licensees (excluding benchmark administrators), which may be a useful reference when considering cyber security.

Appendices

The following appendices contain an overview of each pillar of the climate-related disclosure framework, along with possible types and examples of records that could be used as evidence to prove that a CRE's climate statements comply with the climate-related disclosure framework.¹¹ These examples are not exhaustive and are intended to be illustrative in nature.

These appendices contain more detail for certain disclosures or elements of disclosures, that we consider CREs needed the most guidance on and/or disclosures that we consider pose a higher risk of non-compliance. In addition, some disclosure requirements are not included, as we concluded these did not need additional explanation. However, CREs could apply the same methodology this guidance describes in identifying their specific record-keeping requirements for the disclosures not explicitly covered in the appendices.

The appendices do not contain all disclosures that have first-time adoption relief in NZ CS 2. We expect to update the document to include guidance on those disclosures as soon as practicable.

¹¹ In accordance with section 461V(1)-(2) of the FMC Act, proper CRD records enable CREs to ensure that their climate statements comply with the climate-related disclosure framework.

Appendix 1: Governance

The objective of the governance disclosures in Aotearoa New Zealand Climate Standard 1 (NZ CS 1) is to enable primary users to understand both the role an entity’s governance body¹² plays in overseeing climate-related risks and opportunities, and the role management¹³ plays in assessing and managing those climate-related risks and opportunities.¹⁴

This section provides examples of the types of records that could be produced and retained to support the governance disclosures. It is not a complete or prescriptive list, rather it illustrates ‘how’ certain types of records can substantiate disclosure requirements.

Governance body oversight

The table below details the types of records that CRE’s could retain to support the disclosures relating to the role a CRE’s governance body plays in overseeing climate-related risks and opportunities.¹⁵

Description of how possible records could substantiate disclosure requirements	Example(s)
<p>The processes and frequency by which the governance body is informed about climate-related risks and opportunities.¹⁶</p> <p><i>If the governance body of a CRE is informed about climate-related risks and opportunities, records to support this disclosure could include documents that:</i></p>	
<p>Describe the processes of the governance body being informed (e.g., meetings, emails, reports) and verify the frequency.</p>	<ul style="list-style-type: none"> Quarterly governance body meeting minutes including discussion on a standing agenda item for management to inform the governance body of any new climate-related risks and opportunities.

¹² The *governance body* is defined as “a board, investment committee or equivalent body charged with governance”.

¹³ *Management* is defined as “executive or senior management positions that are generally separate from the governance body”.

¹⁴ Paragraph 6, NZ CS1

¹⁵ If a CRE’s governance body does not play a role in overseeing climate-related risks and opportunities, the examples in the table are still relevant to illustrate ‘how’ specified records link to and substantiate its disclosures (e.g. meeting minutes showing that the governance body is not informed about climate-related risks and opportunities).

¹⁶ Paragraph 8(a), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Example(s)
	<ul style="list-style-type: none"> Management report emailed to the governance body from a yearly internal strategy function review describing the climate-related risks and opportunities in the CRE's revised long-term strategy.
<p>How the governance body ensures that the appropriate skills and competencies are available to provide oversight of climate-related risks and opportunities.¹⁷ <i>If the governance body of a CRE has taken steps to ensure that the appropriate skills and competencies are available to provide oversight, records to support this disclosure could include documents that:</i></p>	
<p>Describe the steps taken to evaluate whether the appropriate skills and competencies are available.</p>	<ul style="list-style-type: none"> Skills matrix and/or report reviewing the climate-related skills and competencies of the governance body with documentation of any gaps. Meeting minutes that describe a discussion of the governance body's assessment of whether the appropriate skills and competencies are available. Evidence of an internal review document with the selection criteria for appointing new members to the governance body, which considers climate-related skills and competencies.
<p>Substantiate any disclosed actions taken to ensure those skills and competencies are available.</p>	<ul style="list-style-type: none"> Engagement letter and/or contract for a third-party provider to provide expertise and training on an as-needed basis to the governance body. Certification or documented confirmation of climate-related training completed by the governance body.
<p>How the governance body considers climate-related risks and opportunities when developing and overseeing implementation of the CRE's strategy.¹⁸ <i>If the governance body of a CRE does consider climate-related risks and opportunities when developing and overseeing implementation of the CRE's strategy, records to support this disclosure could include documents that:</i></p>	

¹⁷ Paragraph 8(b), NZ CS 1

¹⁸ Paragraph 8(c), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Example(s)
Describe how the governance body considers climate-related risks and opportunities <u>in the development</u> of the CRE's strategy.	<ul style="list-style-type: none"> ■ Minutes of a governance body's annual strategy development workshop where management presented on the findings from a climate-related scenario analysis undertaken internally and the governance body discussion on how the findings should be integrated into the changes to the CRE's long-term strategy. ■ Third-party provider report describing climate risks and opportunities most relevant to the CRE with review comments from the governance body members to consider for the development of a revised strategy.
Describe the process of how the governance body considers climate-related risks and opportunities <u>while overseeing implementation</u> of the CRE's strategy.	<ul style="list-style-type: none"> ■ Reports to the governance body on climate-related risks and opportunity metrics and targets that are aligned with the CRE's strategy and performance to date against them. ■ Biannual report prepared by management and provided to the governance body giving an update on progress of implementing the CRE's strategy, which contains sections on the risks and opportunities of the strategy, including those that are climate-related.
<p>How the governance body sets, monitors progress against, and oversees achievement of metrics and targets for managing climate-related risks and opportunities, including whether, and if so how, related performance metrics are incorporated into remuneration policies.¹⁹</p> <p><i>If the governance body of a CRE has taken the steps described in the disclosure requirements to manage climate-related risks and opportunities, records to support disclosures could include documents that:</i></p>	
Substantiate how the governance body <u>sets metrics and targets</u> for managing climate-related risks and opportunities.	<ul style="list-style-type: none"> ■ A report on climate-related targets developed by an industry body or sector research organisation and used by the governance body to set targets for the CRE, and meeting minutes that record how the report was considered when setting those targets. ■ An internal review document that describes a recommended best-practice approach for developing metrics and targets for climate risks and opportunities that is approved by members of the governance body.

¹⁹ Paragraph 8(d), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Example(s)
Support how the governance body <u>monitors progress against</u> and <u>oversees</u> achievement of metrics and targets.	<ul style="list-style-type: none"> ▪ Governance body reporting packs that include information on performance against metrics and targets that relate to the management of climate-related risks and opportunities, and a standing agenda item to discuss the results. ▪ Meeting minutes that verify the governance body discussed performance against the set metrics and targets.
Substantiate how performance metrics for managing climate-related risks and opportunities are incorporated into remuneration policies.	<ul style="list-style-type: none"> ▪ The CRE's remuneration policy that describes the performance metrics relevant to managing climate-related risks. ▪ Employment contracts that describe the performance metrics relevant to individual employees in managing climate-related risks and opportunities. ▪ Performance review reports that substantiate an employee's performance against their prescribed climate-related risks and opportunities.

Management's role

The following table details the types of records that CREs could retain to support the disclosures relating to the role management plays in assessing and managing climate-related risks and opportunities.²⁰

Description of how possible records could substantiate disclosure requirements	Examples
<p>How climate-related responsibilities are assigned to management-level positions or committees, and the process and frequency by which management-level positions or committees engage with the governance body.²¹</p> <p><i>If climate-related responsibilities are assigned, and those who are assigned these responsibilities do engage with the governance body, records to support disclosures could include documents that:</i></p>	

²⁰ If management does not play a role in assessing and managing climate-related risks and opportunities, the examples in the table are still relevant to illustrate 'how' specified records link to and substantiate its disclosures (e.g. meeting minutes showing that management does not consider climate-related risks and opportunities).

²¹ Paragraph 9(a), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Examples
Describe how climate-related responsibilities are assigned.	<ul style="list-style-type: none"> ▪ Minutes from meetings in which the CEO created and assigned responsibility to a separate committee made up of managers across different business units with the mandate to identify and monitor climate-related risks and opportunities across the CRE's operations. ▪ Contracts and position descriptions of management-level positions that include the climate-related responsibilities that have been assigned. ▪ Minutes that approve recommendations from an internal review to revise the CRE's organisation structure to include more specific climate-related roles and amend existing roles to include climate-related responsibilities.
Describe the processes of engagement with the governance body and prove the frequency of engagement.	<ul style="list-style-type: none"> ▪ Minutes from biannual governance body meetings that document attendance and provide updates from a CEO-assigned management-level committee around progress on assessing and managing climate-related risks and opportunities. ▪ Biannual report prepared by management and provided to the governance body that outline plans for and progress on assessment and management of climate-related risks and opportunities.
<p>The related organisational structure(s) showing where these management-level positions and committees lie.²²</p> <p><i>If climate-related responsibilities are assigned to management-level positions and committees, records to support disclosures could include documents that:</i></p>	
Substantiate that the disclosed organisational structure(s) is correct.	<ul style="list-style-type: none"> ▪ Meeting minutes describing the decisions made around formation, structure, and climate-related responsibilities of disclosed committees. ▪ Contracts of the individuals in the management-level positions to which the climate-related responsibilities have been assigned.
<p>The processes and frequency by which management is informed about, makes decisions on, and monitors climate-related risks and opportunities.²³</p>	

²² Paragraph 9(b), NZ CS 1

²³ Paragraph 9(c), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Examples
<i>If management is informed about, makes decisions on, and monitors climate-related risks and opportunities, records to support disclosures could include documents that:</i>	
Describe the processes and frequency of management <u>being informed</u> about climate-related risks and opportunities.	<ul style="list-style-type: none"> ■ Biannual reports from division heads to management that provide information on climate risks and opportunities in each division of the CRE. ■ Minutes from quarterly management meetings in which a separate committee responsible for supervising climate-related opportunities produces a progress report on management of climate-related risks and opportunities.
Describe the processes and frequency of management <u>making decisions</u> about climate-related risks and opportunities.	<ul style="list-style-type: none"> ■ Minutes from a management meeting describing a recommendation to the CEO stating that a climate-related opportunity that was identified should be pursued and operationalised. ■ Minutes from a risk management meeting where a climate-related risk that was escalated to high risk was discussed, along with the actions the management team confirmed are to be taken to mitigate the risk.
Describe the processes and frequency of management <u>monitoring</u> climate-related risks and opportunities.	<ul style="list-style-type: none"> ■ Biannual reports from the CRE's department heads to management that provide reporting on performance against targets used to manage climate-related risks and opportunities, along with meeting minutes that describe discussion of the results. ■ Report from an internal review with recommendations to enhance the CRE's climate-related risk management practices, including detail of the revised approach to monitoring risks going forward.

Appendix 2: Strategy

The objective of the strategy disclosures in Aotearoa New Zealand Climate Standard 1 (NZ CS 1) is to enable primary users to understand how climate change is currently impacting an entity and how it may do so in the future.²⁴

To achieve this objective, CREs are required to comply with the strategy disclosures in paragraphs 11-16 of NZ CS 1. This section provides examples of the types of records that could be produced and retained to support these strategy disclosures. It is not a complete or prescriptive list, rather it illustrates 'how' specified records link to and substantiate disclosure requirements.

This guidance is limited to the disclosures that are mandatory in the first year of reporting and excludes the strategy disclosures that have adoption exemptions available in Aotearoa New Zealand Climate Standard 2 (NZ CS 2).²⁵ We expect to issue guidance on those sections in Q4 of 2023.

Current impacts²⁶

If a CRE chooses to use the first-time adoption provisions relating to strategy disclosures in their first year of reporting, they are only required to disclose information in accordance with paragraph 12(a) of NZ CS 1 when describing their current climate-related impacts.²⁷ The table below details the types of records that CREs could retain to support this disclosure.

²⁴ Paragraph 10, NZ CS 1

²⁵ Specifically, the disclosures in paragraphs 12(b)-(c), 15(b)-(d) and 16(b)-(c) of NZ CS 1 are not covered in this guidance.

²⁶ 'Impacts' are defined in Appendix A of NZ CS 1 as "the effects (also referred to as consequences or outcomes) of climate change occurring for an entity. These effects will, in turn, depend on the impacts of climate change on the broader socioeconomic and ecological systems an entity operates within (including an entity's value chain)".

²⁷ Paragraphs 10-11 of NZ CS 2 provide first-time adoption relief in respect of paragraphs 12(b)-(c) of NZ CS 1.

Description of how possible records could substantiate disclosure requirements	Example(s)
Its current physical and transition impacts.²⁸	
Documents that substantiate the processes undertaken to identify current physical and transition impacts.	<ul style="list-style-type: none"> ■ Results from an internal survey to gather information about the physical and transition impacts that affected the CRE within the relevant reporting period. ■ Internal reports detailing the current physical and transition impacts that affected the CRE during the relevant period.
Documents that substantiate the materiality analysis undertaken to assess the current physical and transition impacts identified.	<ul style="list-style-type: none"> ■ An internal report detailing an assessment undertaken to identify the current physical and transition impacts that had a material impact on the CRE during the relevant reporting period. ■ Minutes from a management meeting where the current physical and transition impacts identified were assessed for whether they had a material impact on the CRE.
Documents that substantiate that the current physical and transition impacts disclosed have occurred.	<ul style="list-style-type: none"> ■ A legal judgment that provides a new interpretation of environmental legislation or regulations the CRE operates under. ■ Enactment and/or application of new legislation related to climate change adaption or mitigation. ■ A research paper that details that climate change increased the severity of an extreme weather event that impacted the entity.
Documents that substantiate how the current physical and transition impacts disclosed have impacted the CRE.	<ul style="list-style-type: none"> ■ A report to the CRE's governance body on the steps taken and resulting financial and operational impact to comply with recently introduced environmental regulation. ■ Internal or third-party reports detailing changes in customer demand over the past year in the CRE's core markets because of changes in consumer attitudes towards the climate, or for a Managed Investment

²⁸ Paragraph 12(a), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Example(s)
	<p>Scheme (MIS) Manager, comparable reports or research covering an investee entity, sector, geography or asset class.</p> <ul style="list-style-type: none"> ■ Research and other documents used by a MIS Manager to prepare its regular reporting to investors and supervisors on the performance of individual funds. ■ An internal report detailing suggested changes to a MIS Manager's Statement of Investment Policies and Objectives (SIPO) as a result of investors' increasing preference for low-carbon investments.

Scenario analysis

CREs must disclose a description of the scenario analysis they have undertaken.²⁹ To support this disclosure:

An entity must describe the *scenario analysis* it has undertaken to help identify its climate-related risks and opportunities and better understand the resilience of its business model and strategy. This must include a description of how an entity has analysed, at a minimum, a 1.5 degrees Celsius *climate-related scenario*, a 3 degrees Celsius or greater *climate related scenario* and a third *climate related scenario*.³⁰

Guidance on the types of records that could be used to prove compliance with this disclosure are detailed below and have been split into records to support:

- 1) the scenario analysis process undertaken and
- 2) the climate-related scenarios analysed.

²⁹ Paragraph 11(b), NZ CS 1

³⁰ Paragraph 13, NZ CS 1

Scenario analysis process undertaken

CREs are required to disclose a description of the scenario analysis they have undertaken to help identify their climate-related risks and opportunities, and better understand the resilience of their business model and strategy.³¹ This includes the process they have undertaken to:

- construct or develop *climate-related scenarios*; and
- analyse the *climate-related scenarios* to assess strategic resilience and help identify climate-related risks and opportunities.

While the Aotearoa New Zealand Climate Standards do not prescribe a specified scenario analysis process, the process undertaken must be in accordance with the defined term ‘scenario analysis’ in Appendix A, NZ CS 1 and Appendix A, NZ CS 3:

A process for systematically exploring the effects of a range of plausible future events under conditions of uncertainty. Engaging in this process helps an entity to identify its climate-related risks and opportunities and develop a better understanding of the resilience of its business model and strategy.

CREs should retain records that substantiate:

- the scenario analysis process disclosed; and
- that the process followed is in accordance with the definition of scenario analysis.

To meet the definition of ‘scenario analysis’, CREs must explore how the future may develop in a systematic manner and under conditions of uncertainty. A process for conducting scenario analysis that CREs could adopt, that is in accordance with the definition in NZ CS 1, is the six-step approach detailed in staff guidance on scenario analysis issued by the External Reporting Board (XRB).³² This six step approach to scenario analysis is based on the recommended approach to climate-related scenario analysis as set out by the Task Force for Climate-related Financial Disclosures (TCFD).³³

The examples below are based on the XRB-aligned six-step approach to illustrate the type of records that CREs could produce and retain to substantiate ‘a’ scenario analysis process as defined in the Aotearoa New Zealand Climate Standards.

We acknowledge that the XRB-aligned six-step approach is not mandated or defined within the Aotearoa New Zealand Climate Standards and is therefore **one** approach to scenario analysis that CREs could take. We have included it as a framework in this guidance to provide a practical demonstration for the types of records that CREs could retain to substantiate this type of scenario analysis process.

³¹ Paragraph 13, NZ CS 1

³² XRB, *Scenario analysis: Getting started at the sector level* (June 2022).

³³ TCFD, *Guidance on Scenario Analysis for Non-Financial Companies* (October 2020).

Key tasks and processes involved	Examples of records that CREs could retain to substantiate this process step was undertaken
1. Engage stakeholders and assess the external environment	
<ul style="list-style-type: none"> • Engage the CRE’s governance body as project sponsors and gain a mandate for senior leaders and management to undertake the scenario analysis. • Form a project team that comprises a broad range of expertise to undertake the scenario analysis. • Develop and agree a project plan for undertaking the scenario analysis. • Explore the CRE’s current sensitivity to climate-related risk and opportunity, providing an analysis of the CRE’s existing climate context. 	<ul style="list-style-type: none"> ▪ Minutes from a governance body meeting that detail the discussion around the governance body acting as project sponsors for scenario analysis. ▪ A project charter that documents project team members’ roles and responsibilities. ▪ A project plan that documents the planned project steps, milestones, and deliverables. ▪ Training material prepared for the project team to upskill them on scenario analysis and climate-related risks and opportunities. ▪ A briefing paper that outlines the findings of an assessment of the climate context and external environment the CRE is, or in the case of a MIS Manager, the funds it manages are, currently operating in.
2. Define the focal question and time horizon	
<ul style="list-style-type: none"> • Define a focal question to constrain the scenario analysis to reach decision-relevant findings. • Define the time horizon of the analysis. 	<ul style="list-style-type: none"> ▪ Minutes from a workshop where the focal question of the scenario analysis was defined as “how could climate change plausibly affect our business model and strategy, what should we do, and when?”. ▪ A project report that details that the scenarios will explore a time horizon of 2075 to ensure the CRE exposure to higher levels of physical climate-related risks is sufficiently tested.

Key tasks and processes involved	Examples of records that CREs could retain to substantiate this process step was undertaken
3. Identify driving forces³⁴	
<ul style="list-style-type: none"> Identify driving forces of change, prioritising them for their level of influence and uncertainty. Assess the interaction of driving forces with the CRE's business model and strategy, developing a systematic understanding of the CRE's interface with climate-related risk. Use axes of transition risk vs physical risk to structure the development of a scenario matrix and use this matrix to elicit scenario themes or logics. Frame the driving forces within the scenario matrix using logical inference. 	<ul style="list-style-type: none"> Minutes from a workshop where the CRE undertook a brainstorming exercise to identify driving forces that could influence its climate-related risks and opportunities, or of the investment portfolios it manages. A project report that includes a chart with the driving forces identified ranked in terms of influence on the CRE and the degree of uncertainty. Minutes from a workshop where a scenario matrix was developed using transition risk vs physical risk axes. Minutes from an Investment Committee meeting where likely driving forces affecting asset classes, sectors and markets across a range of jurisdictions were discussed and assessed. A scenario analysis methodology document that includes a conceptual model detailing how the driving forces interact with each other, the CRE's business model and strategy, and the degree of impact within each quadrant on the scenario matrix.
4. Select temperature outcomes and pathways	
<ul style="list-style-type: none"> Select scenario temperature outcomes (beyond the mandatory 1.5 degrees Celsius climate-related scenario) for the 3 degrees Celsius or greater climate-related scenario and a third climate-related scenario.³⁵ Select emission pathways that align to the temperature outcome in each climate-related scenario and place these 	<ul style="list-style-type: none"> Meeting minutes that document decisions that the temperature outcomes for the climate-related scenarios will be 1.5 degrees Celsius, 3 degrees Celsius and 2 degrees Celsius. Minutes from a workshop where a project team decided to adopt emission reduction pathways consistent with "orderly", "disorderly" and "too little, too late" scenario themes or logics.

³⁴ Driving forces are external factors that influence the events, trends, and patterns that determine pathways and outcomes in a business environment. Driving forces are a core component of the definition of 'climate-related scenario'. Guidance on records in respect of driving forces is detailed on page 28.

³⁵ The temperature outcome refers to the increase in the average global temperatures compared to pre-industrial levels.

Key tasks and processes involved	Examples of records that CREs could retain to substantiate this process step was undertaken
<p>pathways within the scenario themes or logics elicited in step 3.</p>	<ul style="list-style-type: none"> ▪ A project status report detailing the adoption of publicly available emission reduction pathways developed by the Network for Greening the Financial System (NGFS).
<p>5. Draft scenario narratives and quantify</p>	
<ul style="list-style-type: none"> • Draft scenario narratives that adhere to the internal logic of each scenario, developing plausible, compelling pathways to the selected outcomes. Use higher-level scenarios and assumptions to structure thinking on the development of scenario narratives. • If deemed feasible and valuable, generate new CRE-specific data illustrating the implications of the scenarios for the CRE's business model, strategy, and financial planning. 	<ul style="list-style-type: none"> ▪ Minutes from a workshop where the project team mapped out how the driving forces identified could materialise within the bounds of the emission reduction pathway in each scenario. ▪ An assumptions log detailing assumptions used to underpin each scenario narrative and the sources of these assumptions. ▪ Contract for services for work undertaken by a Crown Research Institute to downscale global models on the potential physical impacts of climate change to a New Zealand context. ▪ Publicly available reports obtained by a MIS Manager from an NGO detailing anticipated economic and societal changes in different jurisdictions under a range of emission and climate scenarios.
<p>6. Assess strategic resilience</p>	
<ul style="list-style-type: none"> • Use insights provided by the scenarios to assess the resilience of the CRE's business model and strategy. This involves a structured process of interrogating the implications of each scenario for the strategy and business model of the CRE, were the scenarios to be realised. • Document the implications of the scenarios for the CRE's business model and strategy. 	<ul style="list-style-type: none"> ▪ Minutes from a workshop where the core project team, members of senior leadership, the governance body and management, explored how resilient the CRE's current business model and strategy, or in the case of a MIS Manager investment objectives and strategy, would be within each scenario. ▪ A report prepared by the CRE's strategy team, or equivalent function such as Investment Committee, detailing potential options and/or suggested changes for the CRE's long-term strategy, considering what was learnt from its climate-related scenario analysis. ▪ Minutes from a governance body meeting where approval was granted to bring forward the CRE's target of fully electrifying its transport fleet to 2027 instead of 2030.

Key tasks and processes involved	Examples of records that CREs could retain to substantiate this process step was undertaken
<ul style="list-style-type: none"> Investigate and prioritise options to address these implications, developing the transition plan aspect of the strategy as needed. Monitor signals of change to identify trends, review, and plan to reiterate the process. 	<ul style="list-style-type: none"> A report prepared by management documenting the implications of the scenarios for the CRE's business model and strategy, or investment objectives and strategy in the case of a MIS Manager. Internal reports or research prepared by a MIS Manager to investigate and evaluate potential hedging opportunities to maintain or improve the resilience of its investment strategies.

Methods and assumptions

When disclosing the methods and assumptions underlying the scenario analysis process employed, CREs must disclose certain information in accordance with paragraph 51(b) of NZ CS 3. The table below details the types of records that CREs could retain to support these disclosures.

Description of how possible records could substantiate disclosure requirements	Examples
<p>Whether scenario analysis is a standalone analysis or integrated within the entity's strategy processes;³⁶</p> <p><i>If scenario analysis is integrated within a CRE's strategy processes, records to support disclosures could include documents that:</i></p>	
<p>Outline and explain the processes, procedures and actions taken to integrate the scenario analysis within the CRE's strategy processes.</p>	<ul style="list-style-type: none"> Minutes from a governance body meeting where it was decided that the MIS Manager would update its SIPO at the conclusion of its scenario analysis process, considering the insights gained from the analysis. A report to the governance body evaluating the CRE's current strategic plan against the climate-related scenarios.
<p>The governance process used to oversee and manage the scenario analysis process, including the role of the governance body and management;³⁷</p>	

³⁶ Paragraph 51(b)(i), NZ CS 3. Note, 'strategy processes' refers to the various steps, activities, and decision-making procedures that entities undertake to develop, implement, and evaluate their strategies.

³⁷ Paragraph 51(b)(ii), NZ CS 3.

Description of how possible records could substantiate disclosure requirements	Examples
<i>If governance processes are used to oversee and manage the process, records to support disclosures could include documents that:</i>	
Define the governance processes used to oversee and manage the scenario analysis process.	<ul style="list-style-type: none"> ■ A project charter that defines the set of set of rules, procedures and decision-making mechanisms employed to oversee and manage the scenario analysis process. ■ A report that details the CRE’s governance body’s decision to delegate governance of the scenario analysis process to the CRE’s Chief Risk Officer.
Outline the role of the governance body ³⁸ and management ³⁹ .	<ul style="list-style-type: none"> ■ Minutes from a governance body meeting where it was agreed that the governance body would receive monthly reports on the status of the CRE’s scenario analysis. ■ Minutes from a meeting in which the CEO created and granted a mandate to a management committee to lead the scenario analysis process.
Substantiate the governance processes to oversee and manage scenario analysis were followed.	<ul style="list-style-type: none"> ■ Monthly governance body reports detailing the status of the scenario analysis process. ■ Minutes from scenario analysis leadership team meetings discussing the status of the project and the upcoming milestones. ■ Investment Committee reports to the Board of a MIS Manager discussing the outputs from the scenario analysis process.
If modelling has been undertaken, a clear description of what modelling was undertaken and why the model was chosen as the appropriate model;⁴⁰	

³⁸ ‘Governance body’ is defined in the Aotearoa New Zealand Climate Standards as “a board, investment committee or equivalent body charged with governance”.

³⁹ ‘Management’ is defined in the Aotearoa New Zealand Climate Standards as “executive or senior management positions that are generally separate from the governance body”.

⁴⁰ Paragraph 51(b)(iii), NZ CS 3. Note, this disclosure is specific to modelling undertaken by a CRE to enhance an aspect of its climate-related scenarios or quantify possible impacts of the scenarios on its business model and strategy. It does not refer to a CRE using external data (that has been produced using a model) as an input to the parameters of its climate-related scenarios (e.g. IPCC, NGFS, CCC data).

Description of how possible records could substantiate disclosure requirements	Examples
Detail the model's methodology, including the scope, inputs (e.g. data sets, assumptions), variables, algorithms, calculations, formulae, estimations, uncertainties, constraints, limitations, and exclusions.	<ul style="list-style-type: none"> ■ Model workpapers that detail the inputs, assumptions, formulae and calculations used in a model to quantify the impact of an increasing cost of carbon on the CRE's production costs. ■ A model methodology document or user manual from a third-party provider that details the scope, inputs (e.g. data sets, assumptions), variables, calculations and outputs of the model, and describes any uncertainties, constraints, limitations, or exclusions in a model used by a MIS Manager as part of its process for assessing how hard to abate industries would be impacted by an increased cost of carbon.
Explain why the model was chosen as the appropriate model.	<ul style="list-style-type: none"> ■ A report outlining the rationale behind adopting a certain model to quantify the CRE's potential exposure to the increase in severe weather events in the CRE's 3 degrees or greater climate-related scenario. ■ Meeting minutes describing why a certain model was chosen to quantify the impact of an increasing cost of carbon on a CRE's production costs.
<p>Which external partners and stakeholders are involved.⁴¹</p> <p><i>If external partners and stakeholders have been involved in the process, records to support this disclosure could include documents that:</i></p>	
Describe who the external parties and stakeholders were and prove the involvement they had in the scenario analysis process.	<ul style="list-style-type: none"> ■ A project charter that includes a list of the names of any external parties and stakeholders (i.e. consultants, independent experts, government agencies), and workshop minutes describing how they were involved in developing the climate-related scenarios and/or analysing them. ■ Letter of engagement/invoice and/or final report from an external consultant documenting minutes and outcomes of internal workshops run by the external consultant to facilitate the CRE's scenario analysis working group to systematically explore the effects of the results of their climate-related scenarios on their business model and strategy.

⁴¹ Paragraph 51(b)(iv) of NZ CS 3

Climate-related scenarios analysed

Specific to the climate-related scenarios analysed, CREs are required to disclose a brief description of each scenario narrative.⁴² The climate-related scenarios that are analysed and form the basis of the brief narratives disclosed must satisfy the following definition:⁴³

A plausible, challenging description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner.

Climate-related scenarios are not intended to be probabilistic or predictive, or to identify the ‘most likely’ outcome(s) of climate change. They are intended to provide an opportunity for entities to develop their internal capacity to better understand and prepare for the uncertain future impacts of climate change.

The types of records that CREs could retain to prove that the climate-related scenarios analysed meet this definition are detailed below. CREs should keep in mind that the detailed climate-related scenarios constructed are in and of themselves records to support the brief narratives disclosed.

Note, not all definitional elements of climate-related scenario have been covered in this appendix. We have focused on the elements that are most relevant to record-keeping.

Description of how possible records could substantiate element/s of the definition of climate-related scenario	Examples of records that CREs could retain to substantiate the definitional element is satisfied
<p>Plausible</p> <ul style="list-style-type: none">The definition of ‘climate-related scenario’ refers to scenarios being “a plausible, challenging description of how the future may develop...”.The term ‘plausible’ generally means something that is supported by credible evidence and logical reasoning, and is possible, believable, and reasonable. Climate-related scenarios, including the underlying assumptions and emission reduction pathways, should have these characteristics to be plausible. <p><i>To support the plausibility of the climate-related scenarios, CREs could retain documents that:</i></p>	

⁴² Paragraph 51(a)(i), NZ CS 3

⁴³ ‘Climate-related scenario’ is defined in Appendix A of NZ CS 1 and Appendix A of NZ CS 3.

Description of how possible records could substantiate element/s of the definition of climate-related scenario	Examples of records that CREs could retain to substantiate the definitional element is satisfied
<p>Where relevant, substantiate that the climate-related scenarios are based on credible⁴⁴ evidence.</p>	<ul style="list-style-type: none"> ■ A peer-reviewed article published in a reputable scientific journal that support assumptions made about the development, timeline, and feasibility of low- or no-emissions technologies. ■ A Crown Research Institute report that supports the plausibility of assumptions made about potential increases in average temperatures in New Zealand resulting from climate change. ■ Publicly available scenarios or emission reduction pathways produced by reputable and widely recognised international bodies, government departments and crown entities that support the plausibility of the climate-related scenario parameters, architecture, and assumptions. ■ Research published by a data services provider assessing potential long-term impacts on particular industrial sectors, jurisdictions or asset classes, used by a MIS Manager to inform its scenario analysis process.
<p>Demonstrate that the CRE has considered and understood the likelihood and limitations of the core assumptions underlying the climate-related scenarios.</p>	<ul style="list-style-type: none"> ■ Training material prepared by a climate expert that the project team used to understand the limitations and uncertainties of publicly available scenarios and the conditions upon which the assumptions rely. ■ Minutes from a workshop substantiating a presentation from an expert in electric aviation technologies that outlined the current state of play and explored reasonable assumptions about the feasibility and implementation of new technologies. ■ A report considered by the CRE when drawing assumptions from publicly available scenarios that explains the differences between the context, purpose and methodologies of the publicly available scenarios used and the purpose of climate-related scenario development.
<p>Demonstrate that the assumptions are possible within the hypothetical context constructed.</p>	<ul style="list-style-type: none"> ■ A publicly available scenario relating to a 1.5 degrees Celsius world that details an assumption about the availability of renewable energy that a CRE relied on in its 1.5 degrees Celsius-aligned climate-related scenario. ■ A Crown Research Institute report that details potential sea level rise in New Zealand under a 3 degrees Celsius world that the CRE relied on in its 3 degrees Celsius-aligned climate-related scenario.

⁴⁴ Evidence from reputable organisations and peer-reviewed research support credibility.

Description of how possible records could substantiate element/s of the definition of climate-related scenario	Examples of records that CREs could retain to substantiate the definitional element is satisfied
<p>Demonstrate that the emission reduction pathways in each climate-related scenario are feasible.</p>	<ul style="list-style-type: none"> ▪ Publicly available scenarios produced by reputable and widely recognised international bodies, government departments and crown entities that support the feasibility of the speed and scale of emission reductions leading to a 1.5 degrees Celsius world that a CRE relied on in its 1.5 degrees Celsius aligned climate-related scenario. ▪ A peer-reviewed article published in a reputable scientific journal that supports the feasibility of technology assumptions about negative emissions technology that an emission reduction pathway relies on.
<p>Coherent and internally consistent set of assumptions</p> <ul style="list-style-type: none"> • The definition of ‘climate-related scenario’ refers to scenarios being “...based on a coherent and internally consistent set of assumptions...”. • This means the assumptions underlying each scenario should have a relationship or connection with each other, cannot be mutually exclusive and must relate to each other in a logical and consequential manner. <p><i>Records to substantiate that this requirement has been satisfied could include those that:</i></p>	
<p>Demonstrate that the assumptions relate to each other in a logical and consequential manner</p>	<ul style="list-style-type: none"> ▪ Minutes from a workshop discussing the relationships and connection between publicly available scenarios and emission reduction pathways used to form the parameters and architecture of the CRE’s climate-related scenarios and the degree to which assumptions can be pulled from different scenarios and pathways. ▪ A report detailing the results of an external quality assessment of a CRE’s climate-related scenarios undertaken to determine whether the series of assumptions made in each scenario could plausibly occur in combination and within the same hypothetical context. ▪ Minutes from a workshop discussing how an assumption made about the government gaining a mandate to increase the carbon price could support assumptions made about the increase in the uptake of electric vehicles, and related impacts on the financial performance of certain sectors.
<p>Key driving forces</p> <ul style="list-style-type: none"> • The definition of climate-related scenario refers to scenarios being “...based on a coherent and internally consistent set of assumptions about key driving forces...”. 	

Description of how possible records could substantiate element/s of the definition of climate-related scenario	Examples of records that CREs could retain to substantiate the definitional element is satisfied
<ul style="list-style-type: none"> Driving forces are external factors that influence the events, trends, and patterns that determine pathways and outcomes in a business environment. In the context of <i>climate related scenarios</i>, driving forces are those that will influence a CRE's climate related risks and opportunities and must be continuous over a period of time. <i>Climate-related scenarios</i> should explore how events unfold over time in response to assumptions about key driving forces to comply with definition of climate-related scenario. <p><i>Records to substantiate that this requirement has been satisfied could include those that:</i></p>	
<p>Outline the key driving forces and explain how they were identified.</p>	<ul style="list-style-type: none"> Minutes from a workshop where the CRE undertook a brainstorming exercise to identify driving forces that could influence its climate-related risks and opportunities. A sectoral scenario analysis report that documents the sector-level climate-related scenarios a CRE used to form its entity-level climate-related scenarios that includes detail about how sector-level driving forces were identified. Results from a survey where a CRE's employees were asked to identify driving forces that they considered would have the biggest influence on the CRE's climate-related risks and opportunities.
<p>Demonstrate that the climate-related scenarios explore how events unfold over time in response to assumptions about key driving forces.</p>	<ul style="list-style-type: none"> Minutes from a workshop where the key driving forces identified were placed within the parameters and pathways of the climate-related scenario and a brainstorming exercise was undertaken to explore how the driving forces could influence a series of events in each scenario. A scenario analysis methodology document that documents the results of an impact-mapping exercise undertaken to systematically explore how the driving forces could cause a series of events to happen and the connection between these events.
<p>Physical and transition risks in an integrated manner</p> <ul style="list-style-type: none"> The definition of 'climate-related scenario' refers to scenarios "...covering both physical and transition risks in an integrated manner". This means that the scenarios cannot be constructed to only consider either transition or physical risks in isolation. Instead, each climate-related scenario should explore both types of climate-related risks and include consideration of the interplay between each. 	

Description of how possible records could substantiate element/s of the definition of climate-related scenario	Examples of records that CREs could retain to substantiate the definitional element is satisfied
<ul style="list-style-type: none"> CREs should retain records to substantiate both the transition and physical climate-related risks identified in their climate-related scenarios. <p><i>Records to substantiate that this requirement has been satisfied could include those that:</i></p>	
Support the transition climate-related risks explored in each climate-related scenario.	<ul style="list-style-type: none"> A research paper that supports assumptions made about reduced demand for high-emission products due to changing consumer preferences. A court-issued legal judgment in another jurisdiction where an entity in a similar industry was held to have violated their environmental obligations under national and international law, to support assumptions about the CRE facing climate-related litigation. Publicly available scenarios or emission reduction pathways produced by reputable and widely recognised international bodies, government departments and Crown entities that support assumptions about transition climate-related risks.
Support the physical climate-related risks explored in each climate-related scenario.	<ul style="list-style-type: none"> A Crown Research Institute report that supports assumptions made about increases in average temperatures in New Zealand resulting from climate change. A research paper published in a reputable scientific journal that supports assumptions made about the potential increase in precipitation. Publicly available scenarios or emission reduction pathways produced by reputable and widely recognised international bodies, government departments and Crown entities that support assumptions about physical climate-related risks.

Methods and assumptions

When disclosing these methods and assumptions underlying the climate-related scenarios used, CREs must disclose certain information in accordance with paragraph 51(a) of NZ CS 3. The table below details the types of records that CREs could retain to support these disclosures.

Description of how possible records could substantiate disclosure requirements	Examples
<p>The time horizons considered, including endpoints and whether the endpoints are determined by a year or a temperature target.⁴⁵</p>	
<p>Documents that corroborate that the time horizons disclosed were used to construct each climate-related scenario.</p>	<ul style="list-style-type: none"> ■ A report detailing the scenario analysis project team’s decision to explore plausible pathways to the year 2050. ■ A report detailing the results of a mapping exercise undertaken to ascertain how driving forces could impact the CRE’s climate-related risks and opportunities to the year 2075.
<p>A description of the various emissions reduction pathways in each scenario and the assumptions underlying pathway development over time, including the scope of operations covered, policy and socioeconomic assumptions, macroeconomic trends, energy pathways, carbon sequestration from afforestation and nature-based solutions and technology assumptions including negative emissions technology.⁴⁶</p>	
<p>Documents that corroborate that the emission reduction pathways and the assumptions underlying pathway development over time disclosed were used to construct each climate-related scenario.</p>	<ul style="list-style-type: none"> ■ A scenario analysis methodology document that details the emission reduction pathways used to construct each climate-related scenario. ■ A copy of a publicly available emission reduction pathway detailing a disorderly transition that aligns with the CRE’s high transition risk pathway in its 1.5 degrees Celsius climate-related scenario.
<p>An explanation of why the entity believes the chosen scenarios are relevant and appropriate to assessing the resilience of the entity’s business model and strategy to climate-related risks and opportunities.⁴⁷</p>	
<p>Documents that substantiate why the climate-related scenarios used are relevant and appropriate to assess the resilience of the CRE’s business model and strategy.</p>	<ul style="list-style-type: none"> ■ Minutes from a workshop where the scenario analysis team discussed that given the CRE’s high degree of exposure to transition climate-related risks, it would construct two 1.5 degrees Celsius climate-related scenarios (along with its mandatory 3 degrees Celsius or greater climate-related scenario) to ensure the CRE’s business model and strategy are adequately tested against two distinct scenarios with high transition risk and low physical risk attributes.

⁴⁵ Paragraph 51(a)(ii), NZ CS 3

⁴⁶ Paragraph 51(a)(iii), NZ CS 3

⁴⁷ Paragraph 51(a)(iv), NZ CS 3

Description of how possible records could substantiate disclosure requirements	Examples
	<ul style="list-style-type: none"> ■ A governance body report supporting the rationale of adopting a 2075 time horizon in a CRE’s climate-related scenarios to ensure its commercial property assets are adequately tested over their 50-year useful life against long-term physical climate-related risks. ■ A scenario analysis methodology document supporting the rationale of a MIS Manager’s scheme and underlying funds, which predominantly invest in global equities, focusing its climate-related scenarios on exploring how climate-related risks and opportunities could impact macroeconomic conditions in each major geographic location. ■ Investment Committee reports to the board of a MIS Manager describing the link between the investment objectives and strategies of funds it manages, the hypothetical macroeconomic and asset market impacts the chosen scenarios will investigate, and potential risk identification and management opportunities that will result.
The sources of data used to construct each scenario.⁴⁸	
Documents that corroborate that the sources of data disclosed were used to construct each climate-related scenario.	<ul style="list-style-type: none"> ■ A data inventory report detailing a list and sources of all data used to construct a CRE’s climate-related scenarios. ■ A data-sharing agreement for the provision of physical climate risk data that the CRE used to further refine the impact of sea level rise in its 3 degrees Celsius climate-related scenario

Climate-related risks and opportunities

The table below details the types of records that CREs could retain to support the disclosures relating to its climate-related risks and opportunities.

Possible records to support relevant disclosure	Example(s)
A description of the climate-related risks and opportunities it has identified over the short, medium, and long term.⁴⁹	

⁴⁸ Paragraph 51(a)(v), NZ CS 3

⁴⁹ Paragraph 11(c), NZ CS 1

Possible records to support relevant disclosure	Example(s)
Documents that substantiate the processes undertaken to identify climate-related risks and opportunities.	<ul style="list-style-type: none"> ■ A management report detailing the results of a review of the CRE's climate-related scenario analysis to identify climate-related risks and opportunities. ■ An external expert report that explores the CRE's exposure to a series of climate-related risks and opportunities. ■ Research or reports on markets, asset classes, specific sectors or entities used by a MIS Manager, covering for example exposure to emissions pricing or legislation-linked transition risks.
Documents that substantiate the materiality analysis undertaken to assess the climate-related risks and opportunities identified.	<ul style="list-style-type: none"> ■ A management report detailing the assessment undertaken to identify the material climate-related risks and opportunities. ■ Minutes from a governance body meeting where the current physical and transition impacts identified were assessed in terms of whether they had a material impact on the CRE.
How it defines short, medium and long term and how the definitions are linked to its strategic planning horizons and capital deployment plans;⁵⁰	
Documents that substantiate how the CRE has defined short, medium and long-term time horizons.	<ul style="list-style-type: none"> ■ Minutes from a governance body meeting discussing how a CRE would define its short, medium and long term time horizons in respect of climate-related risks and opportunities. ■ A management report that details how the time horizons will be defined in respect of climate-related risks and opportunities.
Documents that explain how the time horizons are linked to its strategic planning horizons and capital deployment plans.	<ul style="list-style-type: none"> ■ Minutes from a governance body meeting where management presented a proposal to define the time horizons in respect of climate-related risks and opportunities with reference to the CRE's current strategic planning horizons. ■ A management report detailing that the time horizons in respect of climate-related risks and opportunities will be defined by reference to the CRE's capital deployment plans.

⁵⁰ Paragraph 14(a), NZ CS 1

Possible records to support relevant disclosure	Example(s)
	<ul style="list-style-type: none"> ■ Investment Committee reports to the Board of a MIS Manager discussing climate-related risks and opportunities and any resultant adaptations made or proposed for portfolio strategies for the MIS Manager' actively managed funds. ■ Minutes from a governance body meeting where it was decided that the time horizons would have no linkage to the CRE's strategic planning horizons and capital deployment plans.
<p>Whether the climate-related risks and opportunities identified are physical or transition risks or opportunities, including, where relevant, their sector and geography;⁵¹</p>	
<p>Documents that explain how the CRE has classified the climate-related risks and opportunities into physical or transition categories.</p>	<ul style="list-style-type: none"> ■ A risk register detailing the framework applied to classify different climate-related risks and opportunities. ■ A report prepared by the CRE's risk and strategy functions that details how risks were classified as physical and transition risks.
<p>If relevant, documents that explain how the risks and opportunities have been classified by sector or geography.</p>	<ul style="list-style-type: none"> ■ A report to the CRE's governance body or Investment Committee that details how the climate-related risks and opportunities were allocated by sector and geography. ■ Minutes from a workshop where the CRE's risk function allocated the climate related risks and opportunities by sector and geography.
<p>How climate-related risks and opportunities serve as an input to its internal capital deployment and funding decision-making processes.⁵²</p> <p><i>If climate-related risks and opportunities serve as an input to the CRE's capital deployment and funding decision-making process, records to substantiate this disclosure could include documents that:</i></p>	
<p>Explain how analysis of climate-related risks and opportunities is integrated within their wider</p>	<ul style="list-style-type: none"> ■ Internal policy documents detailing a requirement that climate related risks and opportunities are to be included in any business case put forward to the governance body for capital investment decisions.

⁵¹ Paragraph 14(b), NZ CS 1

⁵² Paragraph 14(c), NZ CS 1

Possible records to support relevant disclosure	Example(s)
financial planning, capital deployment and funding processes.	<ul style="list-style-type: none"> For a MIS Manager, internal policies applicable to the management of a fund describing positive or negative investment screening criteria, or comparable investment frameworks. Internal correspondence indicating how reports highlighting climate-related risks and opportunities affecting the CRE's products, key markets or assets were used as part of the CRE's strategic decision-making process.

Anticipated impacts

If a CRE chooses to use the first-time adoption provisions relating to strategy disclosures in their first year of reporting, they are only required to disclose information in accordance with paragraph 15(a) of NZ CS 1 when describing their anticipated impacts of climate-related risks and opportunities.⁵³ The table below details the types of records that CREs could retain to support this disclosure.

Description of how possible records could substantiate disclosure requirements	Example(s)
The anticipated impacts of climate-related risks and opportunities reasonably expected by the entity.⁵⁴	
Documents that substantiate the processes undertaken to identify anticipated impacts of climate-related risks and opportunities.	<ul style="list-style-type: none"> Reports from external parties describing the impact of forecast changes in consumer behaviour on the core markets and potential revenues of a CRE, or for a MIS Manager, comparable reports or research covering an investee entity, sector, geography or asset class. An investment case put to the governance body for a lower-carbon variant of one of the CRE's existing products, citing both internal and external market research. Thematic data or reports prepared by external parties and used by a MIS Manager to assess potential climate-related risks, such as impacts on agricultural productivity or energy costs. Governance body papers and related internal reporting from the CRE's in-house lawyer describing the anticipated impact of regulatory changes that will apply from 2025.

⁵³ Paragraphs 12-14 of NZ CS 2 provide first-time adoption relief in respect of paragraphs 15(b)-(d) of NZ CS 1.

⁵⁴ Paragraph 15(a), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Example(s)
<p>Documents that substantiate the analysis undertaken to assess the anticipated impacts of climate-related risks and opportunities in terms of materiality.</p>	<ul style="list-style-type: none"> ■ A management report that describes internal analysis on the anticipated impacts of climate-related risks and opportunities that could have a material impact on the CRE. ■ Minutes from a governance body meeting where the anticipated impacts of the climate-related risks and opportunities identified were ranked in terms of having the potential impact on the CRE, or equivalent minutes taken at a meeting of the Investment Committee of a MIS Manager concerning climate-related risks and opportunities related to an asset portfolio. ■ Report describing analysis undertaken for a MIS Manager of the expected impact of climate-related risks and opportunities on the market indices used by the manager's funds and of the implications, if any, for its investment strategy/implementation.
<p>Documents that explain why the CRE considers that the anticipated impacts of climate-related risks and opportunities disclosed could reasonably be expected to occur.</p>	<ul style="list-style-type: none"> ■ A Crown Research Institute report that discusses the potential impacts of increasing average temperatures in New Zealand resulting from climate change. ■ A peer-reviewed article published in a reputable scientific journal that discusses the development, timeline, and feasibility of low- or no-emissions technologies. ■ A guidance note issued by a law firm summarising upcoming changes to environmental legislation due to take effect in major overseas markets and their expected impacts, used by a MIS Manager or Risk Committee as part of their assessments of potential transition risks relevant to asset markets or a CRE's operations respectively. ■ A report published by an industry body that analyses the results of a market study undertaken to identify potential changes in consumer preferences as the world transitions to a low-carbon future.

Transition planning

If a CRE chooses to use the first-time adoption provisions relating to strategy disclosures in their first year of reporting, they are only required to disclose information in accordance with paragraph 16(a) of NZ CS 1 and paragraph 16 of NZ CS 2 in terms of how they will position themselves as the global and

domestic economy transitions towards a low-emission, climate-resilient future state.⁵⁵ The table below details the types of records that CREs could retain to support these disclosures.

Description of how possible records could substantiate disclosure requirements	Example(s)
<p>A description of its current business model and strategy.⁵⁶</p>	
<p>Documents that outline a CRE's strategy and business model.</p>	<ul style="list-style-type: none"> ■ Strategy documents that outline the CRE's goals and objectives, and the strategies and mechanisms it will use to achieve them. ■ For a MIS Manager, a Statement of Investment Policies and Objectives that details the investment governance and management framework, philosophy, strategies and objectives of the scheme and its investment funds or portfolios.
<p>A description of its progress towards developing the transition plan aspects of its strategy.⁵⁷</p> <p><i>If a CRE is in the process of developing its transition plan, records to support disclosures could include documents that:</i></p>	
<p>Describe the process for the development of the transition plan aspects of its strategy.</p>	<ul style="list-style-type: none"> ■ Internal scoping documents or terms of reference given to the team responsible for developing a transition plan based on the risks and opportunities the CRE has previously identified. ■ Minutes from meetings where key decisions were made by management or the governance body in relation to the development of the CRE's transition plan. ■ Investment Committee reports to the Board of a MIS Manager outlining the results of a review of portfolio strategy for an actively managed fund.
<p>Demonstrate the progress made towards developing the transition plan aspects of its strategy.</p>	<ul style="list-style-type: none"> ■ An internal report prepared for and reviewed by the governance body describing the results of the scenario analysis process and potential implications for addressing physical and transition risks and pursuing opportunities.

⁵⁵ Paragraph 15 of NZ CS 2 provides first-time adoption relief in respect of paragraph 16(b)-(c) of NZ CS 1

⁵⁶ Paragraph 16(a) NZ CS 1.

⁵⁷ Paragraph 16, NZ CS 2.

Description of how possible records could substantiate disclosure requirements	Example(s)
	<ul style="list-style-type: none"> ▪ Minutes from a governance body meeting at which draft versions of the transition plan were discussed, and feedback was provided by the governance body. ▪ Reports prepared by a MIS Manager for investors and supervisors detailing the performance and composition of individual funds, with related commentary on the MIS Manager's transition strategy and approach climate-related risks and opportunities.

Methods and assumptions, and data and estimation uncertainty

CREs are required to make disclosures about methods and assumptions, and data and estimation uncertainty, to ensure primary users are provided with information to understand the context of the climate statements.⁵⁸

This requirement applies across all disclosures. However, in terms of the strategy disclosures discussed in this appendix, where relevant, CREs need to retain records to substantiate how they considered methods and assumptions, and data and estimation uncertainty in respect of its strategy disclosures. The following areas should be included within a CRE's records to support this:

- an appropriate level of detail to support any calculations that underly its disclosures (e.g, step-by-step calculation spreadsheets where the parameters, justification for methodologies, assumptions, uncertainties, and limitations have been considered and documented);
- any specific additional work (e.g. third party or quality control) related to the compilation or review of calculations and models underlying the strategy disclosures (if applicable);
- internal policies and procedures that document the CRE's processes, methods and approaches; and
- analysis of the quality of the CRE's underlying data, including uncertainty assessments.

⁵⁸ Paragraph 49, NZ CS 3

Appendix 3: Risk management

The objective of the risk management disclosures in Aotearoa New Zealand Climate Standard 1 (NZ CS 1) is to enable primary users to understand how CREs' climate-related risks are identified, assessed, and managed and how those processes are integrated into existing risk management⁵⁹ processes.⁶⁰

Risk management disclosures

The table below details the types of records that CREs could retain to support the disclosures relating to risk management⁶¹ of both transition risks⁶² and physical risks.⁶³

Description of how possible records could substantiate disclosure requirements	Examples
<p>A description of its processes for identifying, assessing, and managing climate-related risks.⁶⁴</p> <p><i>If a CRE does have processes for identifying, assessing, and managing climate-related risks, records to support this disclosure could include documents that:</i></p>	

⁵⁹ 'Risk management' is defined in NZ CS 1 as "a set of processes that are carried out by an entity's governance body and management to support the achievement of an entity's objectives by addressing its risks and managing the combined potential impact of those risks".

⁶⁰ Paragraph 17, NZ CS 1

⁶¹ If a CRE does not manage climate-related risks, the examples in the tables are still relevant to illustrate 'how' specified records link to and substantiate its disclosures (e.g. meeting minutes showing that management is not informed about climate-related risks).

⁶² 'Transition risks' are defined in NZ CS 1 as "risks related to the transition to a low-emissions, climate-resilient global and domestic economy, such as policy, legal, technology, market and reputation changes associated with the mitigation and adaptation requirements relating to climate change".

⁶³ 'Physical risks' are defined in NZ CS 1 as "risks related to the physical impacts of climate change. Physical risks emanating from climate change can be event-driven (acute), such as increased severity of extreme weather events. They can also relate to longer-term shifts (chronic) in precipitation and temperature, and increased variability in weather patterns, such as sea level rise".

⁶⁴ Paragraph 18(a), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Examples
Substantiate the processes a CRE uses to <u>identify</u> climate-related risks.	<ul style="list-style-type: none"> ■ An internal climate risk assessment report documenting an analysis of climate-related scenario analysis and physical climate data analysis (with supporting data included in an appendix) to identify a list of possible climate-related risks. ■ Periodic research reports commissioned or requested on markets, asset classes, specific sectors or entities used by a MIS Manager, covering exposure in its funds and/or its chosen market indices, to emissions pricing or legislation-linked transition risks. ■ Biannual meeting minutes from an internal taskforce that discusses current and potential changes in policy and legislative requirements relevant to the CRE and its value chain, with the objective of identifying new risks (including but not limited to climate-related risks). ■ A Risk Management Policy that sets out the processes the CRE used to identify its climate-related risks and a memo to substantiate that the processes were followed.
Substantiate the processes a CRE uses to <u>assess</u> climate-related risks.	<ul style="list-style-type: none"> ■ Thematic data or reports prepared by external parties and used by a MIS Manager to assess potential climate-related risks, such as impacts on agricultural productivity or energy costs. ■ A biannual report prepared by internal risk managers and approved by the Chief Risk Officer (or equivalent) that includes a risk matrix. The matrix includes all identified climate-related risks, and commentary and visual representation for how they are prioritised for risk assessment against set criteria such as: <ul style="list-style-type: none"> - the velocity or speed of onset of the risk - the likelihood of the risk eventuating - the harm or impact of the risk eventuating - the persistence (or duration) of the risk's effect on the CRE over time.
Substantiate the processes a CRE uses to <u>manage</u> climate-related risks.	<ul style="list-style-type: none"> ■ Business planning yearly reports prepared by internal managers that have a section on planned actions to manage climate-related risks identified and why the actions are appropriate for the assessment of the risks identified. ■ Meeting minutes from the CRE's risk function that evaluates biannually whether identified and assessed climate-related risks are being appropriately managed and describe action items if any changes to the management of those risks are required.

Description of how possible records could substantiate disclosure requirements	Examples
	<ul style="list-style-type: none"> ■ Minutes of Investment Committee meetings covering discussion of climate-related risks (among others) for an actively managed fund, and associated implications for portfolio strategy. ■ A Risk Appetite Statement a CRE used as a guide to manage to its climate-related risks.
<p>A description of how its processes for identifying, assessing, and managing climate-related risks are integrated into its overall risk management processes.⁶⁵</p> <p><i>If a CRE does integrate processes for identifying, assessing, and managing climate-related risks into its overall risk management processes, records to support this disclosure could include documents that:</i></p>	
<p>Substantiate how those processes are integrated.</p>	<ul style="list-style-type: none"> ■ A risk inventory workpaper that managers within a CRE are required to update biannually with any new business risks they have identified (including but not limited to climate-related risks). The workpaper is categorised by a common risk taxonomy (a set of consistently defined risk categories and sub-categories) with climate-related risks incorporated within those categories as relevant. ■ Reports of a MIS Manager’s Investment Committee to the MIS Manager’s Board summarising climate-related and other risks, together with portfolio impact assessments and mitigation measures adopted as a result. ■ Research and reports from proxy voting or shareholder information services used by a MIS Manager to assess climate-related and other risks and inform its voting decisions and engagement with investee entities. ■ Minutes of a quarterly risk meeting discussing the CRE’s risk inventory workpaper, which includes all risks identified to date (including but not limited to climate-related risks), a description of likely impacts of each risk, possible risk responses, and a risk owner. The minutes describe the managers’ discussion of whether the assessment of the likely impacts of each risk are appropriate and whether the management of those risks through the risk responses and owners is currently effective. ■ Minutes of a governance body meeting where there was discussion around managing risk by adjusting the CRE’s risk appetite, now that consideration had been given to the addition of climate-related risks (either by identifying standalone climate risks or intensifying existing business risks due to the additional consideration of climate risks), which are now considered in conjunction with all other business risks.

⁶⁵ Paragraphs 18(b), NZ CS 1

The table below details the types of records that CREs could retain to support the additional disclosures relating to their processes for identifying, assessing and managing climate-related risks.⁶⁶

Description of how possible records could substantiate disclosure requirements	Examples
Tools and methods used to identify, and to assess the scope, size, and impact of, its identified climate-related risks.⁶⁷	
Substantiate the tools and methods used to identify, and to assess the scope, size, and impact of, its identified climate-related risks.	<ul style="list-style-type: none"> ■ Sensitivity analysis spreadsheet model that calculates the CRE's sensitivity and potential monetary impact to an increased carbon price and identifies a risk, should the price increase beyond a certain threshold. ■ Scenario analysis documentation⁶⁸ that describes risks identified, how they have been assessed and the response from management in the 'assessing resilience of current strategy' phase. ■ Stakeholder or investor engagement survey that contains answers and insights from a range of stakeholders inside and outside the CRE on climate-related risks they consider relevant and potential impacts associated with those risks. ■ A Risk Matrix a CRE developed to assess the scope, size and impact of its climate-related risks.

⁶⁶ Note that only section (a) of paragraph 19 of NZ CS 1 has been explained in this guidance. Sections (b) – (e) have not been included.

⁶⁷ Paragraph 19(a), NZ CS 1

⁶⁸ See Appendix 2: Strategy for more information.

Appendix 4: Metrics and targets

The objective of the metrics and targets disclosures in Aotearoa New Zealand Climate Standard 1 (NZ CS 1) is to enable primary users to understand how an entity measures and manages its climate-related risks and opportunities. Metrics and targets also provide a basis upon which primary users can compare entities within a sector or industry.⁶⁹

Greenhouse gas emissions metrics

A CRE is required to disclose the following quantitative information about its GHG emissions:

An entity must disclose metrics for greenhouse gas (GHG) emissions: gross emissions in metric tonnes of carbon dioxide equivalent (CO₂e) classified as⁷⁰:

- (i) scope 1
- (ii) scope 2 (calculated using the location-based method)
- (iii) scope 3

These disclosures are referred to as the 'GHG metrics'. This section sets out the elements that should be considered to support CREs' disclosures on GHG metrics and provide examples that demonstrate the types of records that could be retained.

The order of the following sections is based on the logic often applied by CREs to identify and then calculate their GHG emissions. It does not describe the process for measuring emissions or associated accounting methodologies. The CRE should refer back to the measurement standard or standards it applied for further guidance.

⁶⁹ Paragraph 20, NZ CS 1

⁷⁰ Paragraph 22 (a), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Examples
<p>Identification of reporting boundaries⁷¹</p> <p>A CRE should identify and assess its reporting boundaries based on its legal obligations under the FMC Act and its chosen consolidation approach.</p> <p><i>To support the identification of reporting boundaries, CREs could retain documents that:</i></p>	
<p>Substantiate and explain the CRE's complete legal structure (e.g. funds, subsidiaries, associates, joint ventures).</p>	<ul style="list-style-type: none"> ■ An organisational chart that describes the legal structure of the CRE including joint ventures, subsidiaries, and associates. ■ Listing(s) of all registered schemes and associated funds related to a MIS manager. ■ Joint venture agreements, company constitution, governing document (e.g. trust deed), and/or operating licence documents that verify the CRE's legal structure.
<p>Substantiate the CRE's reporting boundaries based on its legal obligations and chosen consolidation approach.</p>	<ul style="list-style-type: none"> ■ A memorandum that sets out the CRE's assessment of all the elements in its legal structure (e.g. subsidiaries and joint ventures). This concludes on whether it included (or excluded) each element within its reporting boundaries with appropriate justification. This considers both the CRE's legal obligations under the FMC Act and its consolidation approach (e.g. whether it has operational control based on the underlying legal documents for each subsidiary and joint venture). ■ The consolidation policy (e.g., equity share consolidation policy). ■ Any other relevant documents (e.g., operational license or associate audited financial statements).

⁷¹ This is often referred to as setting 'organisational boundaries' in measurement standards.

Description of how possible records could substantiate disclosure requirements	Examples
<p>Identification of GHG emissions sources⁷²</p> <p>A CRE should identify and assess all GHG emissions sources within its reporting boundaries. The analysis process that supports the CRE has appropriately undertaken this identification and assessment process is often referred to as the ‘GHG screening’ analysis (or equivalent).</p> <p><i>To support the identification of GHG emission sources, CREs could retain documents that:</i></p>	
<p>Substantiate the process of identification of all scope 1 and 2 GHG emissions sources.</p>	<ul style="list-style-type: none"> ■ Detailed expense listing from the financial general ledger with the source and date of general ledger extraction documented, identifying GHG emissions sources by highlighting the expense lines (e.g. electricity and fuel). ■ Asset listing with source and date of extraction documented, identifying GHG emissions sources by highlighting or referencing (e.g. boiler, turbine, chemical processing equipment). ■ File note describing interviews with operational staff at the CRE’s sites to identify further emission sources (e.g. refrigerant or methane leaks).
<p>Substantiate the process of identifying all scope 3 GHG emissions sources⁷³ related to the value chain.</p>	<ul style="list-style-type: none"> ■ Value chain⁷⁴ organisational process maps and procedures to identify upstream and downstream emission sources (with guidance from the categories in the measurement standard). ■ Information provided by suppliers, to identify GHG emissions sources, that relate to the goods and services they provide to the CRE. Information includes the supplier details, contact information, and the date the data was received (e.g. information relating to the extraction of raw materials used in the CRE’s products, such as wool, minerals or food ingredients). ■ Expense and activity listings or reports to identify upstream and downstream GHG emissions sources, with the source and date of extraction documented.

⁷² This is often referred to as setting ‘operational boundaries’ in measurement standards.

⁷³ A CREs indirect scope 3 GHG emissions requires an additional process to identify and assess further indirect GHG emissions sources within the CRE’s scope 3 reporting boundaries.

⁷⁴ NZ CS1 states that “a value chain is the full range of activities, resources and relationships related to a CRE’s business model and an external environment in which it operates. A value chain encompasses the activities, resources and relationships a CRE uses and relies on to create its products and services from conception to delivery, consumption and end of life”.

Description of how possible records could substantiate disclosure requirements	Examples
	<ul style="list-style-type: none"> ▪ Listing of all underlying investments in a fund (e.g., full portfolio holdings report).
Classify the GHG emissions sources.	<ul style="list-style-type: none"> ▪ GHG management system extract classifying GHG emission sources into scope 1, scope 2 or scope 3. This document could take the form, of an excel, or software extract file for example.
The rationale to support any exclusions with consideration for materiality.	<ul style="list-style-type: none"> ▪ Document describing GHG emission sources the CRE identified in its GHG screening analysis that it assesses to be immaterial to its users and excludes from GHG measurement. The document describes the rationale for the exclusion, considering materiality.
<p>Calculation of GHG emissions</p> <p>A CRE should calculate its GHG emissions based on the emissions sources identified.</p> <p><i>To support the calculation of GHG emission sources, CREs could retain documents that:</i></p>	
Substantiate the activity data ⁷⁵ relating to the GHG emission source identified.	<ul style="list-style-type: none"> ▪ Monthly invoices from energy retailers that include information on electricity consumed (kWh). ▪ Monthly invoices issued by vendors that contains the litres (L) of fuel consumed and fuel type. ▪ Third-party confirmation from maintenance service providers used to top up refrigerant volumes (kg) and verify leakage.
Substantiate emissions factors and the associated sources. ⁷⁶	<ul style="list-style-type: none"> ▪ Copies of source documents retained (e.g. extracts from the International Energy Agency database, Ministry for the Environment Emissions Factors Workbook, or PDF copy of the International Panel for Climate Change AR 6 Report). ▪ Report of the emissions factors applied to GHG emissions calculations generated from emissions management software.

⁷⁵ A quantitative measure of activity that results in a GHG emission (or GHG removal) (ISO 14064-1 definition). For example, data showing litres of fuel consumed, number of livestock heads or kWh of electricity purchased.

⁷⁶ The underlying documentation relating to the emissions factor source should be retained as a record (e.g. if this information is extracted from a database or publication, then this must be saved and retained by the CRE).

Description of how possible records could substantiate disclosure requirements	Examples
Substantiate GWP rates and the associated source.	<ul style="list-style-type: none"> ▪ GWP₁₀₀ rates from the IPCC Assessment Report AR6 retained as a downloaded PDF copy for the CRE's records. ▪ GWP₁₀₀ rates from MfE's guide for measuring emissions, retained as a downloaded PDF copy for the CRE's records
Substantiate any other adjustments.	<ul style="list-style-type: none"> ▪ Conversion of units (e.g. US gallons to litres). ▪ Calculations of GHG emissions by activity or source (e.g. 3,785 litres of petrol * 2.46 emissions factor = 9,311 kgCO_{2e}). ▪ Conversion of the six GHGs to CO₂ equivalents using GWP rates (e.g. CH₄ to CO_{2e}). ▪ Calculations to obtain the metric tonnes of CO₂ equivalents (e.g. 9,311 kgCO_{2e} / 1000 = 9.31 tCO_{2e}).
Substantiate the final calculation of GHG emissions by each emissions source or activity.	<ul style="list-style-type: none"> ▪ GHG management system extract or excel spreadsheet that includes the final summary of GHG emissions in metric tonnes of CO₂ equivalents by activity or source (e.g. a separate line for petrol consumed from company vehicles is 9.31 tCO_{2e}), categorised into the appropriate scope.
Substantiate the consolidation of GHG emissions.	<ul style="list-style-type: none"> ▪ A CRE should produce a workpaper that consolidates the GHG emissions for each element in its reporting boundaries (e.g. subsidiary, joint venture, associate) to disclose its 'final' GHG metrics for its disclosure. This should be based on its reporting boundary and chosen consolidation approach.

The table below details the types of records that CREs could retain to support the additional disclosures relating to their GHG emissions disclosures:

Description of how possible records could substantiate disclosure requirements	Examples
<p>A CRE must provide a description of the methods and assumptions used to calculate or estimate GHG emissions, and the limitations of those methods. When choices between different methods are allowed, or entity-specific methods are used, the CRE must disclose the methods used and the rationale for doing so⁷⁷.</p>	
<p>Documents that substantiate the disclosed GHG emission methods, assumptions, and limitations.</p>	<ul style="list-style-type: none"> ■ Excel workpaper that retains the formulas and input data in cells to evidence the approach taken, as well as text (or references) to describe methods, assumptions, and limitations where appropriate. ■ Minutes of discussions for methodologies and/or models and why this selection is appropriate. ■ Third-party or quality control outputs (e.g. reports) related to compiling or reviewing GHG emissions calculations and/or models. ■ Methodology documents that include relevant information (e.g. an investment manager engaging a third-party provider to model its scope 3 financed emissions for its investment portfolio fund. They retain the detailed report that includes the information on the data, methodology, assumptions, and model applied to support the CRE's disclosure).
<p>A CRE must describe uncertainties relevant to the entity's quantification of its GHG emissions, including the effects of these uncertainties on the GHG emissions disclosures⁷⁸.</p>	
<p>Documents that substantiate the disclosed uncertainties and effects on the GHG emission disclosures.</p>	<ul style="list-style-type: none"> ■ GHG management system that tracks and documents the characteristics and quality of each underlying data source used for GHG emissions calculations, including assessing data uncertainty for each source. ■ File note that describes the CRE's uncertainty assessment for data sources with material uncertainties. ■ Internal policies and procedures that document the CRE's data quality processes, or approach to data or estimation uncertainty (e.g. data management plan, relevant policies, and internal quality assurance procedures).
<p>An entity must provide an explanation for the base year GHG emissions restatements⁷⁹.</p>	

⁷⁷ Paragraph 52, NZ CS 3

⁷⁸ Paragraph 53, NZ CS 3

⁷⁹ Paragraph 54, NZ CS 3

Description of how possible records could substantiate disclosure requirements	Examples
Documents that substantiate the explanation for a base year restatement.	<ul style="list-style-type: none"> ■ Base year restatement policy. ■ Spreadsheet/excel workpaper that calculates and quantifies a potential restatement with rationale documented. ■ File note that assesses the impact of a potential restatement (e.g. more accurate source of GHG emissions information being sourced). The CRE concludes on whether a base year restatement is required in the disclosure, with consideration for the impact of GHG metrics, base year recalculation policy and materiality assessment.

Targets

When disclosing targets in climate statements, a CRE must consider:

- the defined term of targets⁸⁰ in NZ CS 1
- the disclosure objective that the targets disclosed are those that are “used to manage climate-related risks and opportunities”⁸¹

The table below details the types of records that CREs could retain to support that targets disclosed meet these disclosure requirements:

Description of how possible records could substantiate disclosure requirements	Examples
Documents that substantiate that disclosed target/s: <ul style="list-style-type: none"> - contribute to the CRE achieving its overall climate-related ambition and strategy. 	<ul style="list-style-type: none"> ■ Outputs such as workpapers, a report, presentation slides or meeting minutes of an internal review on developing targets, which considers the CRE’s climate-related strategy, risks and opportunities, and the coverage of associated aligned targets.

⁸⁰ NZ CS 1 defines ‘target’ as “a specific level, threshold, or quantity of a metric that an entity wishes to meet over a defined time horizon in order to achieve an entity’s overall climate-related ambition and strategy”.

⁸¹ Paragraph 21 (d), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Examples
<ul style="list-style-type: none"> - correlate with climate-related risks and opportunities. <p>Documents that substantiate the description of the target/s</p>	<ul style="list-style-type: none"> ▪ Report from a third-party expert engaged to assist with developing targets, including interim targets. As part of the scope of this work, the expert recommended targets that cover the CRE's climate-related strategy commitments, and climate risk and opportunity assessment with consideration for industry best practice. ▪ A MIS Manager's Statement of Investment Policy and Objectives that is updated to include exclusionary screens to fossil fuel activities to its investments, to align with the newly approved portfolio decarbonisation strategy (which is aligned with industry best practice). ▪ Calculation workings and methodologies that relate to the measurement and scope of the target/s.

The table below details the types of records that CREs could retain to support additional disclosures relating to target disclosures:

Description of how possible records could substantiate disclosure requirements	Examples
<p>A description of performance against the targets⁸².</p>	
<p>Documents that support how the CRE tracked progress against targets.</p>	<ul style="list-style-type: none"> ▪ An asset report extracted from the asset management system showing the CRE's progress toward electrifying its fleet of vehicles. The report tracks the vehicles owned by the CRE and its underlying energy source (e.g. electric, petrol or diesel) over time, which can be verified against underlying source documents such as invoices or disposal records. ▪ Consumption data comparing the base year and current year performance (e.g., water consumption or electricity usage) that could be verified against other source records (e.g., water measurement or meter readings).

⁸² Paragraph 23 (d), NZ CS 1

Description of how possible records could substantiate disclosure requirements	Examples
	<ul style="list-style-type: none"> ■ Listing that tracks individual assets that are vulnerable to climate-related risks over time, which can be verified against other information sources (e.g. independent flood asset review, regulatory changes in relation to fossil fuels, media searches or litigation documents). ■ The GHG metrics disclosures in the current and historical climate statements, and the associated supporting GHG records, which are consistent with the performance descriptions about how GHG emissions levels (e.g. scope 1, 2 and 3) are tracking over time against targets.
Documents that support the underlying data, calculations and methodologies used to measure progress against targets.	<ul style="list-style-type: none"> ■ Report from a third-party provider that has reviewed the data or information (e.g. a report that includes their methodology on how they considered and checked the data quality). ■ Evidence of a QC process over other internally generated data or calculations (e.g., QC review of data and calculations against further independent source data, which could be provided and re-performed if necessary). ■ Minutes that approve changes to management remuneration reported in the climate statements that are linked to climate-related risks and opportunities, with underlying HR records (e.g. employment contracts) available to support any calculations if required. ■ Internal report that reviews and recommends the internal emissions price to be set by the CRE and associated target based on sector best practice methodologies and other economic factors (e.g. anticipated policy changes).
Whether the target is an absolute target⁸³ or an intensity target⁸⁴.	
Documents that substantiate the type of target disclosed (i.e. absolute or intensity).	<ul style="list-style-type: none"> ■ Calculation workings and methodologies.

⁸³ NZ CS 1 defines this as “a target defined by a change in absolute GHG emissions over time. For example, reducing Scope 1 GHG emissions by 50% by 2030 from a 2019 base year”.

⁸⁴ NZ CS 1 defines this as “a target defined by a change in the ratio of emissions to a metric over time. For example, reducing tonnes CO₂e per dollar revenue by 48% by 2025 from a 2018 base year”.

Description of how possible records could substantiate disclosure requirements	Examples
<p>The entity's basis for the view expressed in (e) (ii), including any reliance on the opinion or methods provided by third parties⁸⁵</p> <p><i>If a CRE does disclose their view in (e) (ii), and the view is that their disclosed target does contribute to limiting global warming to 1.5 degrees, CREs could retain:</i></p>	
<p>Documents that substantiate the CRE's basis that the target contributes to limiting global warming to 1.5 degrees Celsius.</p>	<ul style="list-style-type: none"> ■ Third-party certification including the associated methodology and calculation documents, evidencing alignment to a 1.5 degrees Celsius pathway. ■ Reports, workings, and/or minutes from science-based experts or using scientific data (e.g. from the AR6 IPCC Report) in developing the CRE's targets that contribute to limiting global warming to 1.5 degrees. ■ Industry publication that provides a comprehensive analysis of the climate-related risks, opportunities and potential scenarios for a specific sector, which helps inform the CRE in developing its targets that contribute to limiting global warming to 1.5 degrees.
<p>The extent to which the target relies on offsets, whether the offsets are verified or certified, and if so, under which scheme or schemes⁸⁶.</p> <p><i>If a CRE discloses a target that relies on offsets, it could retain:</i></p>	
<p>Documents that substantiate the extent to which the target relies on offsets.</p>	<ul style="list-style-type: none"> ■ GHG emissions calculation, which tracks the CRE's current and projected future performance including the projected residual emissions that require offsetting, used to inform the CRE in setting its target (e.g. to achieve net zero for scope 1, 2 and 3 emissions by 2050). ■ Third-party methodology document that describes the process used to develop emissions reduction targets for a specific decarbonisation pathway, including the associated residual GHG emissions to be offset in order to achieve this pathway. ■ Industry body publication evidencing the lack of current technology available to mitigate GHG emissions in specific operational areas, which is used to assist in informing the CRE on the extent to which the offsets will be required.

⁸⁵ Paragraph 23 (e)(iii), NZ CS 1

⁸⁶ Paragraph 23 (e)(iv), NZ CS 1