

# Addendum to Discussion Paper 2024/01: Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government? (June 2024)

This addendum sets out the McGuinness Institute’s response to the 2024 Financial Statements of the New Zealand Government as at 23 October 2024

Discussion Paper 2024/01

Risks Hiding in Plain Sight:  
Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?

New Zealand’s Nationally Determined Contributions (NDCs) Strategy

Total emissions 2021-2030 (NDC1)

New Zealand's domestic emission budgets for 2022-2030 plus actual emissions for 2021

Our emissions gap

Offshore mitigation: How to report this commitment in the financial statements of the New Zealand Government?

Domestic action: Additional domestic reductions below the emissions budget

NDC: Total emissions the New Zealand Government has committed to under the Paris Agreement

MCGUINNESS INSTITUTE  
TE HONONGA WAKA

## Executive summary

This addendum complements the Institute's *Discussion Paper 2024/01: Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?* (June 2024). This addendum clarifies key points and includes additional information that, in our view, strengthens the conclusions made in the original discussion paper.

Since that paper was published, the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024* were published on 10 October 2024. The 2024 Financial Statements did not disclose the commitment under the Paris Agreement to purchase offshore carbon credits. Although this is disappointing, we acknowledge the inclusion of an explanation in the Commentary to the 2024 Financial Statements, which outlines the Government's reasons for the non-disclosure. We also welcome the significant increase in public interest and informed debate on this issue. Our hope is that this helps focus our actions on reducing domestic emissions so that the amount of offshore carbon credits that we need to purchase is reduced, which would deliver a better outcome both for New Zealand and the global climate.

The view expressed in our 2024 discussion paper has not changed, and in practice, recent events have only strengthened our opinion that there is a need to recognise a liability and/or a contingent liability in order to reflect the current set of circumstances. However, it is important to acknowledge that this is a new and emerging accounting practice and, therefore, is highly reliant on interpretation and judgement rather than previous accounting practice. The reporting of a liability and/or a contingent liability to purchase offshore carbon credits as a result of the Paris Agreement would be a world first. However New Zealand has significantly embedded an obligation to purchase offshore carbon credits in public policy and the Paris Agreement in law (more so than many other countries), hence one would expect New Zealand to be one of the first, if not the first, to report this obligation.

Given recent developments (outlined in Appendix 6), there exists a major opportunity for New Zealand to contribute to a global discussion on operationalising Article 6 of the Paris Agreement. Climate Change Minister Watts, alongside H.E. Grace Fu Hai Yien, Minister for Sustainability and the Environment of Singapore, is in charge of one of the COP29 Presidency's main priorities. Importantly, New Zealand has a Memorandum of Understanding (MoU) with Singapore, and Singapore has the second-largest number of bilateral agreements in the world (see Appendix 6). Hence, Minister Watts' new role in operationalising Article 6 is likely to further shape and drive New Zealand's strategy and plans. It is extremely important that small countries meet international obligations, so that big countries also feel obliged to meet their commitments.

The Institute will continue to monitor developments, in particular the signing of MoUs to purchase offshore carbon credits, the release of the 31 December 2024 Biennial Transparency Report, the Half Year Economic and Fiscal Update in December 2024 and the Budget Economic and Fiscal Update in May 2024. We shall also try to learn more about the reference to a 'sufficiently specified plan' in the Commentary and, in particular, what that might look like. We acknowledge that the strategy and plans to deal with the Nationally Determined Contributions (NDC) gap may change in the next few years. Therefore, our accounting opinion may change, and, as indicated in the 2024 Financial Statements, so might the Government's. Our next step will be to write to the International Public Sector Accounting Standards Board (IPSASB) stating that the Auditor-General found that 'no financial reporting standard that explicitly sets out whether or how nations should recognise their carbon reduction commitments in their financial statements' exists and that, as a consequence, the IPSASB should fill this important gap.

Both Lay Wee Ng and I are extremely grateful that we have been heard and our viewpoint has been considered. We thank both the Treasury and the Auditor-General for considering our perspective and shining more light on why they have made the decisions they have. If you have any specific questions or queries, please do not hesitate to contact me at [wmcg@mcguinnessinstitute.org](mailto:wmcg@mcguinnessinstitute.org).

Thank you for your interest,



Wendy McGuinness

23 October 2024

## Background

In June 2024, the Institute published *Discussion Paper 2024/01: Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?*<sup>1</sup> The paper was an accounting opinion. It concluded that the Government's financial statements should disclose a liability and/or a contingent liability.

This addendum explains what is new in terms of the recently published (10 October 2024) *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024* (the 2024 Financial Statements)<sup>2</sup> and other recent developments (set out in Appendix 6).

## General comment

The Institute would like to thank both the Treasury and the Auditor-General for examining when and how New Zealand should report the commitment under the Paris Agreement to purchase offshore carbon credits.

This addendum contains six appendices, and also reviews the mention of Nationally Determined Contributions (NDCs) in the 2024 Financial Statements through three lenses:

- A. A preparer's perspective (i.e. reporting against accounting standards and IPSASB's *Conceptual Framework*)
- B. An auditor's perspective (i.e. auditing to ensure financial statements comply with GAAP),<sup>3</sup> and
- C. A financial management perspective (i.e. the impact on the financial management system).

Below we list the six appendices. The first three contain excerpts from the 2024 Financial Statements in order of page numbers.

### **Appendix 1: Excerpt from the Commentary on the 2024 Financial Statements (the Commentary)**

Note: Treasury prepares the financial statements on behalf of the Government. It has a responsibility to prepare the financial statements in accordance with GAAP. The 2024 Financial Statements include a Commentary on the Financial Statements. The Commentary, found on pp. 3–27 of the 2024 Financial Statements, is not audited, although the Auditor-General has an obligation to review the content to ensure it aligns with the financial statements set out on pp. 39–166 (see *ISA (NZ) 720 (Revised): The Auditor's Responsibilities Relating to Other Information*, p. 8).<sup>4</sup>

### **Appendix 2: Excerpt from the Controller and Auditor-General's Independent Audit Report of the 2024 Financial Statements**

Note: This can be found on pp. 29–38 of the Financial Statements.

### **Appendix 3: Excerpts from the Notes to the 2024 Financial Statements and the 2023 Financial Statements**

Note: The 2024 Financial Statements comprise pp. 39–166 of the document.

### **Appendix 4: Excerpt from the International Public Sector Accounting Standards Board's (IPSASB's) *Conceptual Framework* (December 2023)**

### **Appendix 5: Addition of explanation to Figure 5.1 – The Government's financial reporting system**

We have updated Figure 5.1: The Government's financial reporting system, on p. 35 of the 2024 discussion paper, as well as *Working Paper 2024/11 – Illustration of the Government's financial reporting system* to include the following note:

Note: The Budget numbers shown in the most recent forecast financial statements are audited in the sense that it forms part of the audit of the financial statements, and, as such, the auditors confirm that the Budget numbers fairly reflect the numbers published in the Budget Economic and Fiscal Update (BEFU). However, the Budget numbers have not been audited in the sense of an audit of the process to produce the BEFU, an assessment of the assumptions used, or an opinion as to whether the numbers shown are reasonable.

## Appendix 6: Other key events that have occurred since the June 2024 discussion paper

In addition to the financial statements being published, this appendix details additional events since June 2024. This includes the Memorandums of Understanding signed in April (which we have only recently become aware of), recent statements by political parties, and the announcement that Climate Minister Simon Watts will be one of two individuals leading the operational response globally for Article 6 of the Paris Agreement.

## Appendix 7: The financial commitment in 2030

This appendix builds on the information contained in Appendix 1, the Commentary.

### Three perspectives

#### A: A preparer's perspective

Context:

None of the reports contained in pp. 40–48 of the 2024 Financial Statements mention the NDC commitment. These include: the Statement of Financial Performance; the Statement of Comprehensive Revenue and Expense; the Statement of Changes in Net Worth; the Statement of Cash Flows; the Statement of Financial Position; and the Statement of Segments.

Observation:

1. The NDC commitment is discussed broadly in Note 1, under recognition of non-exchange expenses and liabilities, and specifically in 'Note 2: Key Assumptions and Estimations, Climate change commitments and risks'. Note 2 sets out why the commitment should not be disclosed. See excerpts in Appendix 3.

These financial statements do not recognise a liability for the NDC as there is neither a legally enforceable obligation in the Paris Agreement to enforce the achievement of the NDC, nor does a constructive obligation presently exist in the absence of a sufficiently specified plan to achieve the NDC. This treatment is consistent with the recognition of non-exchange expenses and liabilities policy described in Note 1: Basis of Reporting. Climate change commitments made are ongoing and adjustable future costs which are not a present obligation as they do not exist independently of a government's future actions. While future costs will be incurred in pursuit of these objectives and targets, those costs will be reported in the future as they are incurred [bold added] (p. 62).

2. This could be the first specific mention in the financial statements of the New Zealand Government of a review being undertaken to determine whether the current climate change commitment fits the definition of a constructive obligation, or what the IPSASB's *Conceptual Framework* refers to as non-legally binding obligations. See Appendix 4, paragraph 5.15F and paragraph BC5.19 for an explanation on the change to the term 'non-legally binding obligation'.
3. The discussion on 'valid expectation' has been relocated from a Note (as in the 2023 Financial Statements) to the Commentary. See Appendices 1 and 3. This means that the discussion no longer forms part of the financial statements and, therefore, is no longer audited. Importantly, the creation of a 'valid expectation' is one of the three attributes required to give rise to a non-legally binding obligation (see IPSASB's *Conceptual Framework* paragraph 5.15F below, also in Appendix 4).

*Non-Legally Binding Obligations*

5.15F Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:

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- The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

4. There is an increased focus on ‘the absence of a sufficiently specified plan to achieve the NDC’ and less focus on the probable outflow of resources and the extent to which a reliable estimate can be made (see page 43 of the June 2024 Discussion Paper).<sup>5</sup> The issue appears to be now addressed at a conceptual level, relying on guidance from the IPSASB’s *Conceptual Framework*.

Opinion:

1. The Institute’s discussion paper discusses the *Conceptual Framework* in Section 3.3.5, but also focuses on *PBE IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets* (see Section 6 of the Institute’s discussion paper). This change in focus seems logical, particularly given the Auditor-General’s comments below that no explicit financial reporting standard exists to deal with this issue. We agree that this change in focus seems prudent.

Table 1: Brief analysis of the three attributes that underlie a non-legally binding obligation against the NDC commitment

The three attributes (IPSASB’s <i>Conceptual Framework</i> , Para 5.15F)	2024 Financial Statements (interpretation/excerpts)	McGuinness Institute view
<p>1. The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;</p>	<p>States has not been met, as evidenced by the following statements:                      Note 2 states: ‘These financial statements do not recognise a liability for the NDC as there is neither a legally enforceable obligation in the Paris Agreement to enforce the achievement of the NDC, nor does a constructive obligation presently exist in the absence of a sufficiently specified plan to achieve the NDC’ (p. 62).                      The Commentary states: ‘The Treasury’s judgement is that these actions and statements are in the nature of a demonstration of intent. No plan has yet been formulated for international cooperation necessary to achieve the NDC’ (p. 23).</p>	<p>For this to be true, the Government would need to have found that none of the three exist: (i) an established pattern of past practice, (ii) published policies, <b>or</b> (iii) a sufficiently specific current statement that it will accept certain responsibilities.                      In contrast, the Institute considers that an established pattern of ‘published policies’ has been met (e.g. Cabinet papers going back to 2015) and a ‘sufficiently specific current statement that it will accept certain responsibilities’ has arguably been met. For example, a specific number of carbon units, a specific date by when the carbon credits must be purchased, and countries of interest have been identified in the MoUs signed in April 2024 (see Appendix 6).                      In addition two of the three political parties in power accept the responsibility and the third has made no comment.                      The Institute acknowledges that the dividing line between a strategy and a plan is one of judgement.</p>
<p>2. As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and</p>	<p>Not clear.</p>	<p>For this to be true, the Government would need to have <i>not</i> created a valid expectation that it will discharge those responsibilities, for example, if Minister Watts had said the Government would not write a cheque/co-operate with other countries to meet our NDC.                      The Institute considers those other parties are the citizens of New Zealand, the parties to the Paris Agreement and parties to relevant trade agreements. See video of Minister Watts at the Climate Change and Business Conference, Auckland, 10 September 2024.<sup>6</sup> Minister Watts is clearly concerned about writing the cheque and what people might think/want, but in our view he sees some offshore purchases as inevitable.</p>
<p>3. The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.</p>	<p>Not clear.</p>	<p>For this to be true, the Government would need to have identified one or more realistic alternatives in regard to settling the obligation.                      The Institute considers the threshold has been met, as the Government ‘has little realistic alternative’ to avoid settling the obligation. This is because, as Minister Watts has indicated, although an alternative exists – to reduce domestic emissions – New Zealand cannot rely on reducing domestic emissions alone (which was recognised in 2015).</p>

2. Importantly, it is generally accepted that there should normally be an evolution from a strategy to a plan, and sometimes one strategy can lead to several plans being developed, reviewed or updated. The point at which a strategy becomes a plan is less clear.

Arguably, when John Key’s Government advised in 2015 that its decision to sign the Paris Agreement would remain provisional pending access to carbon markets (which was later incorporated into Article 6),<sup>7</sup> it set in motion a strategy for New Zealand to meet our NDC. In 2023, Hon James Shaw proposed a Nationally Determined Contribution Strategy to Cabinet, which ‘noted that the cost of using offshore mitigation has been estimated by *Climate Economic and Fiscal Assessment [sic]* analysis to range between \$3-24 billion by 2030’ and ‘agreed to the adaptive approach provided by the “Dynamic Pathway” for monitoring, assessing and adjusting the balance of domestic and international mitigation at key decision points’;<sup>8</sup> hence, a strategy was established. In early 2024, a further step along the continuum was cemented with the signing of three high-level Memorandums of Understanding (MoUs). The MoUs are explorative and are designed to purchase offshore carbon credits from countries that are expected to emit less than they committed to – a trade of sorts, which New Zealand will pay for.<sup>9</sup> See Appendix 6.



Although it is unclear what would meet the threshold of a ‘sufficiently specified plan’ (a term used in the Commentary), the term is likely to reflect what the IPSASB’s *Conceptual Framework* calls a ‘sufficiently specific current statement’ (see paragraph 5.15F above, also in Appendix 4). Arguably, a pattern of published policies (e.g. consistent Cabinet papers since 2015) would be sufficient to meet that attribute. Importantly, Attribute 1 (see Table 1) uses ‘or’, rather than ‘and’, meaning only one of the three options discussed in Attribute 1 needs to be met.

## B: An auditor’s perspective

Context:

The auditor provides a further check that the financial statements comply with GAAP. In the case of the 2024 Financial Statements, the Controller and Auditor-General stated that pp. 39–166 ‘present fairly, in all material respects’ the financial statements of the Government.<sup>10</sup> This means that the commentary on pp. 3–27 is not audited.

Observation:

What is notable is that the Independent Audit Report of the Controller and Auditor-General (pp. 29–38) treated climate change commitments as a Key Audit Matter (KAM) (p. 35). See Appendix 2. It became a KAM because of the level of judgement required and increasing public interest in the size and reporting of the commitment. This accounting and auditing issue is not going to go away. In February 2025, the government will be setting NDC2 (2031–35).<sup>11</sup> See Appendix 7 for an understanding of the potential increase in the cost of carbon in 2035.

1. The Auditor-General noted that no explicit financial reporting standard exists (although it is important to acknowledge that accounting standards can address an issue without it being explicitly mentioned).

There is no financial reporting standard that explicitly sets out whether or how nations should recognise their carbon reduction commitments in their financial statements [bold added] (p. 35).

2. The Auditor-General reverts to the International Public Sector Accounting Standards Board’s (IPSASB’s) *Conceptual Framework* as guidance.

Determining at what point a liability should be recognised requires judgement and consideration of factors, including future actions the Government could take to modify or change the potential obligation before it crystallises [bold added] (p. 35).

This phrase ‘before it crystallises’ is below in paragraph 5.17C in the IPSASB’s *Conceptual Framework* (see full excerpt in Appendix 4).

5.17C	<p>The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid a transfer of resources include:</p> <ul style="list-style-type: none"> <li>• The nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely creates a valid expectation on the part of external parties that the entity has an obligation that it has little or no realistic alternative to avoid settling. However, an announcement in relation to an event or circumstance that has occurred may have such political support that the government has little option to withdraw. Where the government has committed to introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation;</li> <li>• The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented; and</li> <li>• There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However, the absence of a budgetary provision does not itself mean that a present obligation has not arisen.</li> </ul>
5.17D	<p>“Economic coercion”, “political necessity” or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.</p>

However, as indicated by the Auditor-General, there are other factors to be considered. The key is whether the entity has little or no realistic alternative to avoid the transfer. The Institute argues, based on policy and actions to date, that the threshold has been met (see Table 1 above).

Also related to this is the concept of prudence. The concept of uncertainty is not new to preparers and auditors; uncertainty alone is not grounds for not reporting useful information. See paragraph 3.14A in the IPSASB's *Conceptual Framework* (see full excerpt in Appendix 4).

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| 3.13  | Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users' assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.   |
| 3.14  | Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFs to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users' assessments and decisions.   |
| 3.14A | Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and revenue are not overstated, and liabilities and expense are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or revenue or the overstatement of liabilities or expense. Such misstatements can lead to the overstatement or understatement of revenue or expense in future reporting periods. |

3. The Auditor-General's statement that they have looked at other governments' financial statements is welcome.

We reviewed the annual financial statements of other governments to see whether they had recognised a liability for their Paris Agreement commitments (p. 35).

However, to be truly useful, such an assessment needs to compare how those countries have embedded the obligation into public policy and how their unique emissions profile and the size of their gap compares to New Zealand's. For a more detailed discussion, see p. 81 of our Discussion Paper 2024/01.<sup>12</sup>

#### Opinion:

1. The first point in paragraph 5.17C, discussed again in 5.17D of the IPSASB's *Conceptual Framework* (see B:(2) above and Appendix 4), notes that the threshold can be met if a high level of 'political support' gives little option for the Government to withdraw.

It can also be shown, in the third point in paragraph 5.17C, that the absence of a budgetary provision does not mean that a non-legal obligation has **not** arisen.

The Institute also points to paragraph 5.17D, which makes clear that 'economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation' (i.e. a constructive obligation). This perspective is further supported by the recent actions of the Government and political parties, outlined in Appendix 6.

2. The Institute is not saying there is 'no realistic alternative' to avoid the transfer (although we appreciate that could be argued), but believes, based on what is publicly known, that there is 'little' chance that a realistic alternative exists. In particular, the 'political consequences' of meeting the obligation outweigh the costs of not meeting the obligation – both domestically for exporters and internationally for our reputation.
3. Looking at other governments' financial statements is a good starting point but, in the Institute's view, New Zealand would likely meet the threshold first. From our initial scoping, New Zealand would be, and therefore should be, the first country to disclose the financial obligation in a set of financial statements. This is based on the extent to which New Zealand has embedded the Paris Agreement in legislation (it forms a schedule in the Climate Change Response Act 2002) and the extent to which it is consistently articulated in Cabinet papers.<sup>13</sup>



## C: A financial management perspective

### Context:

It is important to emphasise that the liability and contingent liability is a provision, and re-estimated each year. It is not a cash payout, and does not require 100 percent certainty. The role of provisions and contingent liabilities is to help the financial statements ‘fairly reflect’ the consolidated financial position of the Government (as noted in the Statement of Responsibility at the start of the financial statements). However, there is also a bigger purpose – to help the country budget for possible financial shocks. It is this aspect that we discuss in this section.

### Observation:

1. This is the first time that an additional explanation has been made under the ‘fiscal resilience’ section of the Commentary on the financial statements. This comment, listed under fiscal indicators, is new (see Appendix 1). This section is commonly used to examine whether the Government’s fiscal position is resilient. It is novel for an explanation of the current accounting treatment to be included in this section. At this stage, the Commentary includes this statement:

The Treasury’s judgement is that these actions and statements are in the nature of a demonstration of intent. No plan has yet been formulated for international cooperation necessary to achieve the NDC. Without that specificity, there is not yet a valid expectation for accounting purposes that NDC1 will be met through offshore purchases, a constructive obligation is not yet present, and it is not yet appropriate to report a liability in these financial statements. This judgement is consistent with our position from 2021 to 2023 but is kept under review as the circumstances and government policies develop. The intention is that the accounting fairly reflects current policy rather than being a driver of it [bold added] (p. 23).

The Commentary (see excerpt in Appendix 1) does disclose the size of the gap (being 93 Mt CO<sub>2</sub>-e) and a range of carbon prices based on three different scenarios (i.e. between US\$12.65 and US\$303.67 per tonne).<sup>14</sup> As such, it is possible to calculate the cost of buying offshore carbon credits in 2030. Although this information may suggest the range may be anything between NZ\$2 billion and NZ\$46 billion, it is important to note that Treasury considers the final figure is more like NZ\$4 billion.<sup>15</sup> There will be a number of assumptions underlying the final figure, including that the total tonnes required to be purchased in 2030 are not more than 93 Mt CO<sub>2</sub>-e; that excess demand for reputable credits does not push up prices further; and that the NZ dollar does not significantly decrease in value. What is clear is that the scale creates the potential for a significant financial shock.

### Opinion:

1. The comment that ‘the intention is that the accounting fairly reflects current policy rather than being a driver of it’ is important. We agree with this statement, but it goes both ways (see Paragraph 3.13 above). For example, it would be inappropriate for the financial statements to not disclose simply because the disclosure may drive policy. It is critically important that the financial statements of Government are drawn up independently of Ministers and only report against accounting standards. Where standards do not exist, the *Conceptual Framework* should be applied (as the Auditor-General did, see above). Preparers should not second guess their actions, but focus on fairly reflecting the performance of Government.
2. It is important to emphasise that the Budget is where financial decisions are made and the financial statements play an important ancillary role – reporting how well the Government has performed, relative to the Budget. Minister of Finance Hon Nicola Willis acknowledges this relationship in the Ministerial Statement when she states: ‘These Financial Statements report what has already occurred. Government planning necessarily looks to the future’ (p. 1). This relationship is illustrated in *Working Paper 2024/11 – Illustration of the Government’s financial reporting system*.<sup>16</sup>

This is an area of difference between the public and private sectors, in that for the latter we do not see the budgets, only the financial statements. Transparency and accountability are key principles that should drive financial management in public sector accounting. For this reason it was excellent to see the range of carbon prices included so that the total can be quantified, but that price should be realistic

(i.e. NZ\$4 billion, see Appendix 7). Our hope is that both the quantity and price/s are reported every year, and preferably in the Notes to the Financial Statements. Further, the total financial commitment in New Zealand dollars should be reported in both the Half Year Economic and Fiscal Update and the Budget Economic and Fiscal Update so that all citizens can be informed (without needing to use a calculator).

3. There is a need for clarity around how the Budget Economic and Fiscal Update (BEFU) and the financial statements interconnect.

Our understanding is that in the 2026 financial year the forecast in the BEFU may recognise a liability in the 2030 forecast. However, if the Government considers it does not meet that test of a liability, the next earliest opportunity would be in 2030, when the purchase price would be reported as an expense in the 2030 Financial Statements.

This is because a contingent liability is not prepared for each forecasted year in the forecast financial statements of the BEFU. Instead it is only prepared once, for the most recent year, in the form of a Statement of Actual Contingent Liabilities and Assets as at 30 June (see, for example, p. 120 of the 2024 BEFU). More information on contingent liabilities (quantified and unquantified) is outlined in the Specific Fiscal Risks chapter of the BEFU.

4. In our view, not recognising this liability or contingent liability does not reflect the concept of faithful representation when viewed through the lens of an effective financial reporting and management system. See paragraph 3.10 in the IPSASB's *Conceptual Framework* (see full excerpt in Appendix 4).

<b>Faithful Representation</b>	
3.10	To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of
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the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.	

The Institute believes New Zealand should be doing everything it can now to get the liability and contingent liability down by reducing domestic emissions and working hard to negotiate as low a carbon price as possible for the amount that we have to purchase overseas.

## Appendix 1: Excerpt from the Commentary on the 2024 Financial Statements

Source: The Treasury (2024) (pp. 23–24)<sup>17</sup>

### New Zealand's commitment to the Paris Agreement

The purpose of this box is to explain the current accounting treatment of New Zealand's commitment to the Paris Agreement temperature goal.

#### What is the Paris Agreement?

The Paris Agreement aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, by holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change.

As nationally determined contributions to the global response to climate change, all Parties to the Agreement are to undertake and communicate ambitious efforts with a view to achieving its purpose.

The Agreement requires Parties to *'prepare, communicate and maintain successive nationally determined contributions to the global response to climate change that it intends to achieve. Parties shall pursue domestic mitigation measures, with the aim of achieving the objectives of such contributions.'*

#### How is the Paris Agreement treated in the Financial Statements of the Government?

As outlined in Note 2 (see page 62) these financial statements do not recognise a liability for the first Nationally Determined Contribution (NDC1) under the Paris Agreement.

Under the requirements of the Public Finance Act and generally accepted accounting practice, these financial statements must report a liability when there is a present obligation (either legal or constructive) that is both probable and reliably measured. Determining whether those criteria have been met requires judgement, particularly over whether a constructive obligation is present.

New Zealand has a legal obligation as a Party to the Paris Agreement to prepare, communicate, and maintain successive NDCs that it intends to achieve. This does not extend to an obligation to meet the NDC.

A constructive obligation is an obligation that derives from the Government's actions where "by an established pattern of past practice, published policies, or a sufficiently specific current statement, the Government has indicated to other parties that it will accept certain responsibilities and as a result, the Government has created a valid expectation on the part of those other parties that it will discharge those responsibilities." (PBE IPSAS 19). To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of a past transaction or other event and requires an outflow of resources from the entity. It may be difficult to identify the past event and identification involves an assessment of when an entity has little or no realistic alternative to avoid an outflow of resources from the entity. In making such an assessment an entity considers the relevant context. (PBE Conceptual Framework 5.17).

Some external commentators have suggested that the criteria for a constructive obligation have been met, pointing to:

- i. successive government's commitments to meet the NDC1 target which has been reiterated by the current government
- ii. the NZ-EU Free Trade Agreement which includes an obligation 'to refrain from any action or omission that materially defeats the object and purpose of the Paris Agreement'
- iii. the acceptance of the Climate Change Commission's advice on the level of the first emissions budgets, and
- iv. when setting the INDC (2015) and NDC1 (2021) the Government's notified intention to complement domestic action with international cooperation to meet NDC1.

The Treasury's judgement is that these actions and statements are in the nature of a demonstration of intent. No plan has yet been formulated for international cooperation necessary to achieve the NDC. Without that specificity, there is not yet a valid expectation for accounting purposes that NDC1 will be met through offshore purchases, a constructive obligation is not yet present, and it is not yet appropriate to report a liability in these financial statements. This judgement is consistent with our position from 2021 to 2023 but is kept under review as the circumstances and government policies develop. The intention is that the accounting fairly reflects current policy rather than being a driver of it.

### Financial information on the first Nationally Determined Contribution

Interim projections developed for the discussion document on the second emissions reduction plan (2026-30), released in July 2024 indicate that domestic emissions reductions will fall short of the target set in NDC1 by approximately 93 Mt CO<sub>2</sub>-e and that additional abatement, on top of currently proposed policies will be required to meet the NDC. In this discussion document, the Government noted it is considering how to address this challenge and will make further announcements in due course.

Options include international cooperation to invest in emissions reductions offshore that could be counted toward the NDC. Any international purchases will be dependent on the existence of willing sellers as well as the Government as a willing purchaser and on the cost of purchasing (including administrative costs, market development costs, and costs of emissions reductions).

Several scenarios for the possible price per tonne of carbon for such mitigation were canvassed in the Climate Economic and Fiscal Assessment jointly produced by the Ministry for the Environment and the Treasury in 2023. More recently, the Intergovernmental Panel on Climate Change Scenarios Data Explorer also provides possible global carbon prices (in 2005 US\$ per tonne) based on different Shared Socioeconomic Pathways (SSPs) as illustrated in the table below.

SSP	Scenario	Est. warming (2041–2060)	Global Carbon Price per tonne in 2030
SSP1-1.9	Very low GHG emissions, CO <sub>2</sub> emissions cut to net zero around 2050	1.6 °C	USD 303.67
SSP1-2.6	Low GHG emissions, CO <sub>2</sub> emissions cut to net zero around 2075	1.7 °C	USD 32.72
SSP2-4.5	Intermediate GHG emissions, CO <sub>2</sub> emissions around current levels until 2050, then falling	2.0 °C	USD 12.65

Combining such possible prices of offshore mitigation with the amount that would need to be purchased provides a wide range of possible outcomes.

New Zealand's first Biennial Transparency Report (BTR) under the Paris Agreement is due by 31 December 2024. The BTR is the first official communication that tracks progress towards New Zealand's first Nationally Determined Contribution (NDC1).



# Appendix 2: Excerpt from the Controller and Auditor-General’s Independent Audit Report of the 2024 Financial Statements

Source: The Treasury (2024) (p. 35)<sup>18</sup>

Climate change commitments	How we addressed this matter
<p>As outlined in note 2 on page 62 New Zealand’s current Nationally Determined Contribution (NDC) to deliver on the goals of the Paris Agreement is a 50 per cent reduction of net emissions below New Zealand’s gross 2005 level by 2030.</p> <p>To achieve its international commitments, in addition to reducing domestic emissions, New Zealand may need to purchase offshore mitigation.</p> <p>The Government has not recognised any liabilities in relation to its commitments to achieve its carbon targets. Determining if, and at what point a liability should be recognised requires judgement.</p> <p>The Treasury’s assessment noted that there is neither a legally enforceable obligation in the Paris Agreement to enforce the achievement of the NDC, nor does a constructive obligation presently exist in the absence of a sufficiently specified plan to achieve the NDC.</p> <p>In the absence of a legal obligation in the Paris Agreement, a key judgement in assessing whether a liability should be recognised is whether there is a constructive obligation at present.</p> <p>This is reported as a key audit matter because of the judgement required and increasing public interest.</p>	<p>We reviewed the Treasury’s assessment of whether a liability should be recognised for the NDC commitment. We considered whether the nature of the Paris Agreement and other Government statements, meant a liability should be recognised.</p> <p>There is no financial reporting standard that explicitly sets out whether or how nations should recognise their carbon reduction commitments in their financial statements. Determining at what point a liability should be recognised requires judgement and consideration of factors, including future actions the Government could take to modify or change the potential obligation before it crystallises.</p> <p>We have considered the Treasury’s assessment, and carried out our own analysis, of whether the commitment should be recognised as a liability or disclosed as a contingent liability, or neither of these.</p> <p>We reviewed the annual financial statements of other governments to see whether they had recognised a liability for their Paris Agreement commitments.</p> <p>I am satisfied that not recognising a liability or contingent liability for the Government’s emissions reductions targets at this point in time is a reasonable interpretation of the financial reporting standards and that the disclosures are appropriate.</p>



# Appendix 3: Excerpts from the Treasury’s Notes to the 2024 Financial Statements and the 2023 Financial Statements

## (i) Excerpt from the 2024 Financial Statements

Source: The Treasury (2024) (pp. 50, 62)<sup>19</sup>

### Note 1 in the 2024 Financial Statements

**Recognition of non-exchange expenses and liabilities**

Expenses (and related liabilities) are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Judgement is required in assessing each of these conditions, and therefore reporting if an expense and a present obligation should be reported.

Governments pursue a considerable number of policy targets and outcomes. However the commitment to these targets and outcomes generally do not of themselves constitute a present obligation unless the Government is clear on the cost it intends to incur, when payment will be made, and to whom and as a consequence has raised a valid expectation in those affected that they will benefit. This can be either because the criteria for the payment has been met or the entity, as a result of the expectation, has been influenced to incur expenditure, or acted in the expectation of receiving assistance. Only in those circumstances has the government created a constructive obligation which it has little or no realistic alternative to avoid.

As a consequence, liabilities are not reported for costs associated with the Government’s policy objectives and targets when such commitments made are ongoing and adjustable future costs that do not exist independently of a government’s future actions. While future costs will be incurred in pursuit of these objectives and targets, these costs will be reported in the future as they are incurred.

Policy choices by Government contribute to targets and outcomes. Where a policy choice gives rise to an obligation that exists independently of a government’s future actions, expenses (and related liabilities) are recognised for that policy. The recognition point is when there is a present obligation and it is probable there will be an outflow of resources in settling the obligation and the amount can be reliably measured.

### Note 2 in the 2024 Financial Statements

Notes to the Financial Statements

**Note 2: Key Assumptions and Estimation (continued)**

Financial statement item	Judgements and Impact on assumptions	Note
Climate change commitments and risks	<p>The Treasury’s assessment of the possible economic and fiscal impacts of climate change on New Zealand are brought together in Nga Korero Āhuarangi Me Te Ohanga: Climate Economic and Fiscal Assessment 2023. Climate change will create multiple cost pressures for the Crown and is likely to negatively affect its tax base through changes to economic activity. The choices the Government will make, including around revenue and expenditure and the balance of spending and non-spending levers used as part of a wider climate policy portfolio, will be key drivers of any fiscal impacts.</p> <p>The New Zealand Emissions Trading Scheme is New Zealand’s main emissions pricing tool and is a key tool for meeting climate change targets. Refer to Note 21: New Zealand Emissions Trading Scheme for more information on the scheme’s direct fiscal impact on these financial statements.</p> <p>New Zealand’s current Nationally Determined Contribution (NDC) to deliver on the goals of the Paris Agreement sets a headline target of a 50 per cent reduction of net emissions below our gross 2005 level by 2030. By way of context, this NDC target was set in 2021 and follows New Zealand’s ratification of the Paris Agreement in October 2016, the introduction in New Zealand of the Climate Change Response (Zero Carbon) Amendment Act 2019, with a target of net zero carbon emissions by 2050 and the Government’s declaration of a climate emergency in December 2020 (joining at the time, over 1,800 jurisdictions in 32 countries to declare a climate emergency and commit to reducing emissions to avoid a more than 1.5°C rise in global warming).</p> <p>These financial statements do not recognise a liability for the NDC as there is neither a legally enforceable obligation in the Paris Agreement to enforce the achievement of the NDC, nor does a constructive obligation presently exist in the absence of a sufficiently specified plan to achieve the NDC.</p> <p>This treatment is consistent with the recognition of non-exchange expenses and liabilities policy described in Note 1: Basis of Reporting. Climate change commitments made are ongoing and adjustable future costs which are not a present obligation as they do not exist independently of a government’s future actions. While future costs will be incurred in pursuit of these objectives and targets, those costs will be reported in the future as they are incurred.</p>	

(ii) Excerpt from Note 1 in the 2023 Financial Statements

Source: The Treasury (2023) (p. 54)<sup>20</sup>

***Climate change obligations***

New Zealand's current Nationally Determined Contribution (NDC) to deliver on the goals of the Paris Agreement sets a headline target of a 50 per cent reduction of net emissions below our gross 2005 level by 2030. This follows New Zealand's ratification of the Paris Agreement in October 2016, the introduction in New Zealand of the Climate Change Response (Zero Carbon) Amendment Act 2019, with a target of net zero carbon emissions by 2050 and the Government's declaration of a climate emergency in December 2020 (joining at the time, over 1,800 jurisdictions in 32 countries to declare a climate emergency and commit to reducing emissions to avoid a more than 1.5°C rise in global warming).

As there is no enforceable obligation in the Paris Agreement to enforce the achievement of the NDC, no liability is recognised in these financial statements as at 30 June 2023. Liabilities are not reported at balance date for costs associated with the Government's policy objectives and targets (even if included in legislation or declared in international treaties) if there is no clear financial liability that the Government will incur if these targets are not met.

The Government's commitment to climate change action does not constitute a present obligation on the Government's balance sheet unless the Government is clear on the cost it intends to incur, when payment will be made, and to whom and as a consequence, has raised a valid expectation in those affected that they will benefit, either because the criteria for the payment has been met or the entity, as a result of the expectation, has been influenced to incur expenditure, or acted in the expectation of receiving assistance. Climate change commitments made are ongoing and adjustable future costs which are not considered a present obligation, as they do not exist independently of a government's future actions. While future costs will be incurred in pursuit of these objectives and targets, any costs will be reported in the future as they are incurred.

# Appendix 4: Excerpts from the International Public Sector Accounting Standards Board’s (IPSASB’s) *Conceptual Framework* (December 2023)

Source: IPSASB (2023) (pp. 23–27, 47–49, 58–59)<sup>21</sup>

Note: The 2023 *Conceptual Framework* is an update of the 2014 *Conceptual Framework*. Chapters 3, 5 and 7 were updated.

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## Introduction

- 3.1 GPFRs present financial and non-financial information about economic and other phenomena. The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes.
- 3.2 The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.
- 3.3 Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.
- 3.4 Each of the qualitative characteristics is integral to, and works with, the other characteristics to provide in GPFRs information useful for achieving the objectives of financial reporting. However, in practice, all qualitative characteristics may not be fully achieved, and a balance or trade-off between certain of them may be necessary.
- 3.5 The qualitative characteristics apply to all financial and non-financial information reported in GPFRs, including historic and prospective information, and explanatory information. However, the extent to which the qualitative characteristics can be achieved may differ depending on the degree of uncertainty and subjective assessment or opinion involved in compiling the financial and non-financial information. The need for additional guidance on interpreting and applying the qualitative characteristics to information that extends the scope of financial reporting beyond financial statements will be considered in the development of any IPSASs and RPGs that deal with such matters.

## Relevance

- 3.6 Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.
- 3.7 Financial and non-financial information has confirmatory value if it confirms or changes past (or present) expectations. For example, information will be relevant for accountability and decision-making purposes if it confirms expectations about such matters as the extent to which managers have discharged their responsibilities for the efficient and effective use of resources, the achievement of specified service delivery objectives, and compliance with relevant budgetary, legislative and other requirements.
- 3.8 GPFRs may present information about an entity's anticipated future service delivery activities, objectives and costs, and the amount and sources of the resources that are intended to be allocated to providing services in the future. Such future oriented information will have predictive value and be relevant for accountability and decision-making purposes. Information about economic and other phenomena that exist or have already occurred can also have predictive value in helping form expectations about the future. For example, information that confirms or disproves past expectations can reinforce or change expectations about financial results and service delivery outcomes that may occur in the future.
- 3.9 The confirmatory and predictive roles of information are interrelated—for example, information about the current level and structure of an entity's resources and claims to those resources helps users to confirm the outcome of resource management strategies during the period, and to predict an entity's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past expectations and predictions about the entity's ability to respond to such changes. It also helps to confirm or correct prospective financial information included in previous GPFRs.

## Faithful Representation

- 3.10 To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of



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the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.

- 3.11 In practice, it may not be possible to know or confirm whether information presented in GPFRs is complete, neutral, and free from material error. However, information should be as complete, neutral, and free from error as is possible.
- 3.12 An omission of some information can cause the representation of an economic or other phenomenon to be false or misleading, and thus not useful to users of GPFRs. For example, a complete depiction of the item “plant and equipment” in GPFRs will include a numeric representation of the aggregate amount of plant and equipment together with other quantitative, descriptive and explanatory information necessary to faithfully represent that class of assets. In some cases, this may include the disclosure of information about such matters as the major classes of plant and equipment, factors that have affected their use in the past or might impact on their use in the future, and the basis and process for determining their numeric representation. Similarly, prospective financial and non-financial information and information about the achievement of service delivery objectives and outcomes included in GPFRs will need to be presented with the key assumptions that underlie that information and any explanations that are necessary to ensure that its depiction is complete and useful to users.
- 3.13 Neutrality in financial reporting is the absence of bias. It means that the selection and presentation of financial and non-financial information is not made with the intention of attaining a particular predetermined result—for example, to influence in a particular way users’ assessment of the discharge of accountability by the entity or a decision or judgment that is to be made, or to induce particular behavior.
- 3.14 Neutral information faithfully represents the economic and other phenomena that it purports to represent. However, to require information included in GPFRs to be neutral does not mean that it is not without purpose or that it will not influence behavior. Relevance is a qualitative characteristic and, by definition, relevant information is capable of influencing users’ assessments and decisions.
- 3.14A Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that assets and revenue are not overstated, and liabilities and expense are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or revenue or the overstatement of liabilities or expense. Such misstatements can lead to the overstatement or understatement of revenue or expense in future reporting periods.
- 3.14B The exercise of prudence does not imply a need for asymmetry; for example, a systematic need for more persuasive evidence to support the recognition of assets or revenue than the recognition of liabilities or expense. Particular standards may contain asymmetric requirements where this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.
- 3.15 The economic and other phenomena represented in GPFRs generally occur under conditions of uncertainty. Information included in GPFRs will therefore often include estimates that incorporate management’s judgment. To faithfully represent an economic or other phenomenon, an estimate must be based on appropriate inputs, and each input must reflect the best available information. Caution will need to be exercised when dealing with uncertainty. It may sometimes be necessary to explicitly disclose the degree of uncertainty in financial and non-financial information to faithfully represent economic and other phenomena.
- 3.16 Free from material error does not mean complete accuracy in all respects. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described. In some cases, it may be possible to determine the accuracy of some information included in GPFRs—for example, the amount of a cash transfer to another level of government, the volume of services delivered or the price paid for the acquisition of plant and equipment. However, in other cases it may not—for example, the accuracy of an estimate of the value or cost of an item or the effectiveness of a service delivery program may not be able to be determined. In these cases, the estimate will be free from material error if the amount is clearly described as an estimate, the nature and limitations of



the estimation process are explained, and no material errors have been identified in selecting and applying an appropriate process for developing the estimate.

### **Understandability**

- 3.17 Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and commentary on service delivery and other achievements during the reporting period and expectations for future periods should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.
- 3.18 Users of GPFRs are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyze the information presented with reasonable diligence. Some economic and other phenomena are particularly complex and difficult to represent in GPFRs, and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in GPFRs in a manner that is understandable to a wide range of users. However, information should not be excluded from GPFRs solely because it may be too complex or difficult for some users to understand without assistance.

### **Timeliness**

- 3.19 Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.
- 3.20 Some items of information may continue to be useful long after the reporting period or reporting date. For example, for accountability and decision-making purposes, users of GPFRs may need to assess trends in the financial and service delivery performance of the entity and its compliance with budgets over a number of reporting periods. In addition, the outcome and effects of some service delivery programs may not be determinable until future periods—for example, this may occur in respect of programs intended to enhance the economic well-being of constituents, reduce the incidence of a particular disease, or increase literacy levels of certain age groups.

### **Comparability**

- 3.21 Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.
- 3.22 Comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single period across more than one entity. Comparability is the goal, and consistency helps in achieving that goal. In some cases, the accounting principles or policies adopted by an entity may be revised to better represent a particular transaction or event in GPFRs. In these cases, the inclusion of additional disclosures or explanation may be necessary to satisfy the characteristics of comparability.
- 3.23 Comparability also differs from uniformity. For information to be comparable, like things must look alike and different things must look different. An over-emphasis on uniformity may reduce comparability by making unlike things look alike. Comparability of information in GPFRs is not enhanced by making unlike things look alike, any more than it is by making like things look different.
- 3.24 Information about the entity's financial position, financial performance, cash flows, compliance with approved budgets and relevant legislation or other authority governing the raising and use of resources, service delivery achievements, and its future plans is necessary for accountability purposes and useful as input for decision-making purposes. The usefulness of such information is enhanced if it can be compared with, for example:

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- Prospective financial and non-financial information previously presented for that reporting period or reporting date;
  - Similar information about the same entity for some other period or some other point in time; and
  - Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.
- 3.25 Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

**Verifiability**

- 3.26 Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in GPFRs—that is, the quality of information that helps assure users that explanatory or prospective financial and non-financial quantitative information faithfully represents the economic and other phenomena that it purports to represent. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:
- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
  - An appropriate recognition, measurement, or representation method has been applied without material error or bias.
- 3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.
- 3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).
- 3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.
- 3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.
- 3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.

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- Prospective financial and non-financial information previously presented for that reporting period or reporting date;
- Similar information about the same entity for some other period or some other point in time; and
- Similar information about other entities (for example, public sector entities providing similar services in different jurisdictions) for the same reporting period.

3.25 Consistent application of accounting principles, policies and basis of preparation to prospective financial and non-financial information and actual outcomes will enhance the usefulness of any comparison of projected and actual results. Comparability with other entities may be less significant for explanations of management's perception or opinion of the factors underlying the entity's current performance.

**Verifiability**

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- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.

3.27 To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities also can be verified.

3.28 Verification may be direct or indirect. With direct verification, an amount or other representation is itself verified, such as by (a) counting cash, (b) observing marketable securities and their quoted prices, or (c) confirming that the factors identified as influencing past service delivery performance were present and operated with the effect identified. With indirect verification, the amount or other representation is verified by checking the inputs and recalculating the outputs using the same accounting convention or methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, average cost or first-in-first-out).

3.29 The quality of verifiability (or supportability if such term is used to describe this characteristic) is not an absolute—some information may be more or less capable of verification than other information. However, the more verifiable is the information included in GPFRs, the more it will assure users that the information faithfully represents the economic and other phenomena that it purports to represent.

3.30 GPFRs of public sector entities may include financial and other quantitative information and explanations about (a) key influences on the entity's performance during the period, (b) the anticipated future effects or outcomes of service delivery programs undertaken during the reporting period, and (c) prospective financial and non-financial information. It may not be possible to verify the accuracy of all quantitative representations and explanations of such information until a future period, if at all.

3.31 To help assure users that prospective financial and non-financial quantitative information and explanations included in GPFRs faithfully represents the economic and other phenomena that they purport to represent, the assumptions that underlie the information disclosed, the methodologies adopted in compiling that information, and the factors and circumstances that support any opinions expressed or disclosures made should be transparent. This will enable users to form judgments about the appropriateness of those assumptions and the method of compilation, measurement, representation and interpretation of the information.



## Liabilities

### Definition

- 5.14 A liability is:  
*A present obligation of the entity to transfer resources as a result of past events.*
- 5.14A For a liability to exist, three criteria must all be satisfied:
- (a) The entity has an obligation (paragraphs 5.15–5.15F);
  - (b) The obligation is to transfer resources (paragraphs 5.16A–5.16F); and
  - (c) The obligation is a present obligation arising from one or more past events (paragraphs 5.17–5.17D).

### Obligations

- 5.15 Public sector entities can have a number of obligations. Obligations are binding when an entity has little or no realistic alternative to avoid them.
- 5.15A Binding obligations can be legal obligations or non-legally binding obligations. Binding obligations can arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of an external party is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for an obligation and a liability to exist.
- 5.15B Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an obligation involves a transfer of resources and gives rise to a liability. However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.

#### Legal Obligations

- 5.15C A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. There are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect. Obligations that are binding through such alternative processes are considered legal obligations in the Conceptual Framework. For some types of non-exchange transactions, judgment will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law, there can be no doubt that an entity has little or no realistic alternative to avoid the obligation and that a liability exists.
- 5.15D Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions—or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.
- 5.15E Sovereign power is the ultimate authority of a government to make, amend and repeal legal provisions. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability in this Conceptual Framework. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.

#### Non-Legally Binding Obligations

- 5.15F Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:

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- The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

**A Transfer of Resources from the Entity**

5.16 [Deleted]

5.16A To satisfy the definition of a liability the obligation must have the potential to require the entity to transfer resources to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer resources—the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the present obligation exists, and that, at least in one circumstance, it would require the entity to transfer resources.

5.16B An obligation can meet the definition of a liability even if the probability of a transfer of resources is low. Nevertheless, that low probability might affect decisions about the information provided about the liability and how the information is provided. Chapter 6 provides guidance on recognition and Chapter 7 provides guidance on measurement.

5.16C Obligations to transfer resources include, for example:

- (a) Obligations to pay cash;
- (b) Obligations to provide services or deliver goods;
- (c) Obligations to exchange resources with another party on unfavorable terms. Such obligations include, for example, a forward contract to sell on terms that are currently unfavorable or an option that entitles another party to purchase resources from the entity;
- (d) Obligations to transfer resources if a specified uncertain future event occurs; and
- (e) Obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer a resource.

5.16D Instead of fulfilling an obligation to transfer resources to the party that has a right to receive resources, entities may in some circumstances:

- (a) Settle the obligation by negotiating a release from the obligation;
- (b) Transfer the obligation to a third party; or
- (c) Replace the obligation to transfer resources with another obligation by entering into a new transaction.

5.16E In the situations identified in paragraph 5.16D an entity has an obligation to transfer resources until it has settled, transferred, or replaced that obligation.

5.16F In a principal-agent relationship (see paragraph 5.12A), if the agent has an obligation to transfer resources controlled by the principal to a third party, that obligation is not a liability of the agent. In such a case the resources that would be transferred are the principal's resources.

**Present Obligation as a Result of Past Events**

5.17 A present obligation is binding. To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of one or more past transactions or other past events and has the potential to require the entity to transfer resources from the entity.

5.17A A present obligation exists as a result of past events only if:

- (a) The entity has already obtained service potential or economic benefits or taken an action<sup>7</sup>; and

<sup>7</sup> In the public sector a present obligation can arise from an obligation imposed by a higher level of government



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(b) As a consequence, the entity will or may have to transfer resources that it would not otherwise have had to transfer.

5.17B In the public sector, obligations may arise at a number of points. For example, in implementing a program or service:

- Making a political promise such as an electoral pledge;
- Announcement of a policy;
- Introduction (and approval) of the budget (which may be two distinct points); and
- The budget becoming effective (in some jurisdictions the budget will not be effective until an appropriation has been effected).

The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability. As noted in paragraph 5.15A an entity cannot be obligated to itself as a result of a public communication.

5.17C The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that the entity has little or no realistic alternative to avoid a transfer of resources include:

- The nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely creates a valid expectation on the part of external parties that the entity has an obligation that it has little or no realistic alternative to avoid settling. However, an announcement in relation to an event or circumstance that has occurred may have such political support that the government has little option to withdraw. Where the government has committed to introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation;
- The ability of the entity to modify or change the obligation before it crystallizes. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, which cannot be modified before being implemented; and
- There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation. For example, where both a budget line item has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, a non-legally binding obligation may exist. However, the absence of a budgetary provision does not itself mean that a present obligation has not arisen.

5.17D "Economic coercion", "political necessity" or other circumstances may give rise to situations where, although the public sector entity is not legally obliged to incur a transfer of resources, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.

5.18 [Deleted]

5.19 [Deleted]

5.20 [Deleted]

5.21 [Deleted]

5.22 [Deleted]

5.23 [Deleted]

5.24 [Deleted]

5.25 [Deleted]

5.26 [Deleted]

**Basis for Conclusions (BC)**

This Basis for Conclusions accompanies, but does not form part of, the *Conceptual Framework*.

*A Present Obligation*

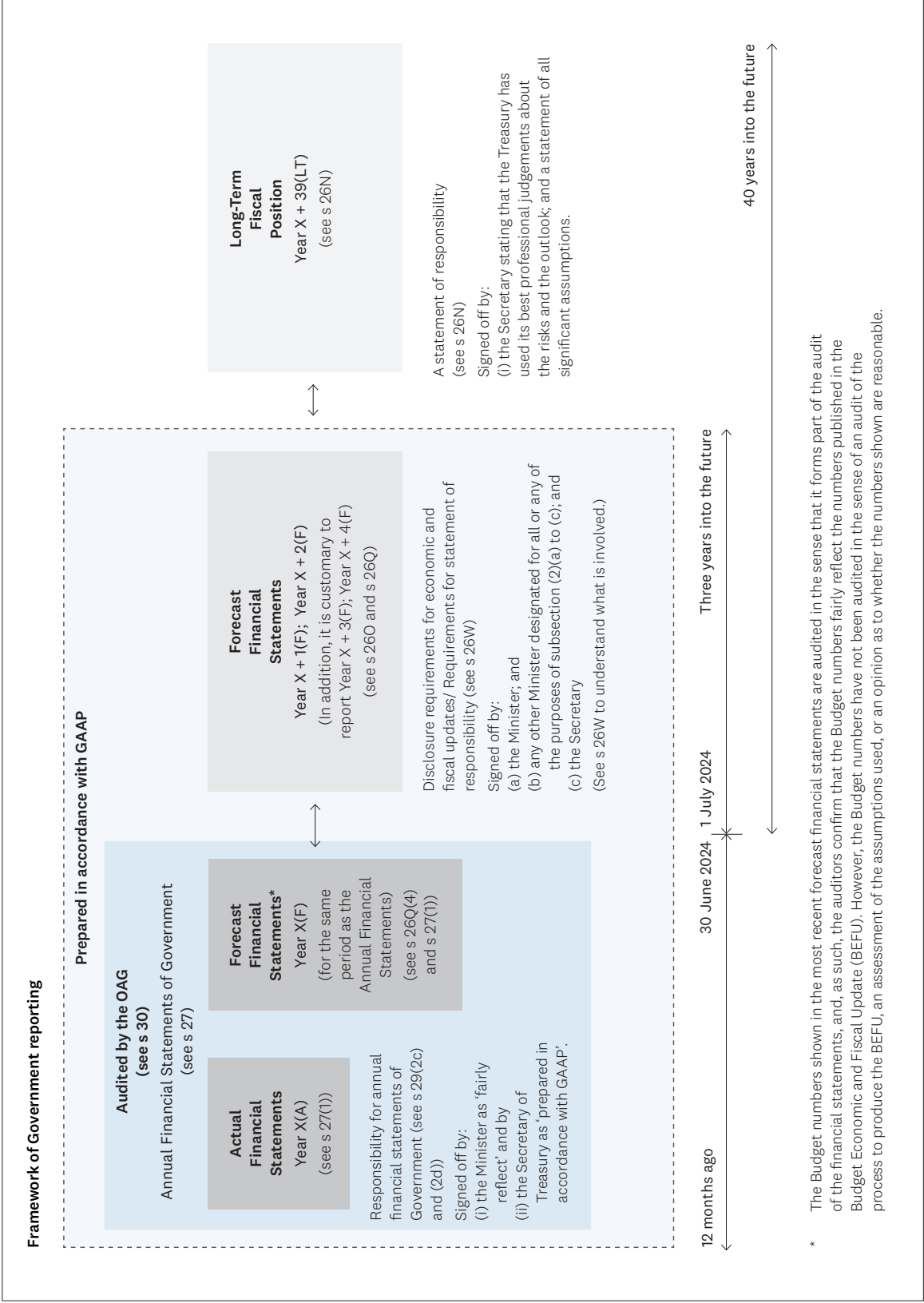
BC5.19 In considering when obligations are present obligations, the IPSASB accepts that a legal obligation gives rise to a present obligation. In some jurisdictions, public sector entities are not permitted to enter into certain legal arrangements, but there are equivalent mechanisms that give rise to a present obligation. Such mechanisms are considered legally binding. The IPSASB then considered how to classify obligations that are not legal obligations. The IPSASB noted that “constructive obligation” is a term embedded in standard-setting literature globally and has been used in IPSASs. However, it has proved difficult to interpret and apply in a public sector context. Therefore, the IPSASB considered

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alternative terminology, for example the term “a social or moral duty or requirement.” The IPSASB has concerns that the term “social” might be confused with political values and that the term “moral obligations” risks a perception that standard setters and preparers are arbiters of morality. Therefore, the IPSASB decided that making a distinction between “legally binding” and “non-legally binding obligations” is the most straightforward and understandable approach. The IPSASB considered and rejected the view that the term “non-legally binding obligations” might be interpreted as referring to obligations, the legality of which is questionable. Paragraphs BC5.30–BC5.34 discuss non-legally binding obligations and explain their meaning for the purposes of the Conceptual Framework.

# Appendix 5: Addition of explanation to Figure 5.1 – The Government’s financial reporting system

We have updated Figure 5.1: The Government’s financial reporting system, on p. 35 of the 2024 discussion paper, as well as *Working Paper 2024/11 – Illustration of the Government’s financial reporting system*, to provide more clarity over what is audited in regard to the forecast financial statements. As a result, we have added a note to Figure 5.1.



## Appendix 6: Other key events that have occurred since the June 2024 discussion paper

Below is a brief description of five recent events.

### 1. 15–20 April 2024: Three MoUs signed

When the Institute published its June Discussion Paper, it was unaware that in April 2024, the Prime Minister entered into three Memorandums of Understanding with Singapore, Thailand and the Philippines.<sup>22</sup> Climate Change Minister Watts mentioned these discussions on 10 September 2024 at the 2024 Climate Change & Business Conference in Auckland. This may result in ‘funding projects overseas that reduce gross emissions, to offset the failure to do so here’.<sup>23</sup> At the conference, Minister Watts also confirmed the Government wants to do ‘everything possible’ to minimise the cost of NDC over the next 65 months (until 2030).<sup>24</sup>

#### 15 April 2024: Joint Statement by the Prime Ministers of Singapore and New Zealand

The global low emissions transition presents opportunities to drive economic growth and innovation. The Prime Ministers agreed that Singapore and New Zealand would further enhance cooperation under the Climate Change and Green Economy pillar. The Prime Ministers directed officials to explore how New Zealand and Singapore will cooperate to promote commercial partnerships in achievement of their respective climate change and economic transition goals. This could include Green Economy focused business missions to Singapore and New Zealand **to identify opportunities for collaboration** in areas such as energy and transport technology, and cooperation on finance and investment including **carbon markets** [bold added] (Paragraph 9).

#### 17 April 2024: Joint Statement by the Prime Minister of the Kingdom of Thailand and the Prime Minister of New Zealand

The Prime Ministers agreed to collaborate on the advancement of renewable energy solutions, aiming to reduce reliance on fossil fuels and combat climate change, including **cooperation to enhance Nationally Determined Contribution (NDC) achievement** [sic] under the Paris Agreement. This collaboration may include practical initiatives such as joint projects on renewable energy technology development and use of carbon markets, knowledge exchange, and capacity building [bold added] (Paragraph 18).

#### 18-20 April 2024: Joint Statement for the official visit of New Zealand Prime Minister Christopher Luxon [Philippines]

The Leaders recognised the need to align climate actions to support the achievement of the goal of holding global average temperature increase to well below 2 degrees Celsius of pre-industrial levels and pursuing efforts to limit it to 1.5 degrees Celsius, and directed their respective officials to discuss the development of a potential Memorandum of Arrangement. This Arrangement shall relate to Article 6 of the Paris Agreement, which recognizes that some Parties choose **to pursue voluntary cooperation in the implementation of their Nationally Determined Contributions (NDCs)** wherein collaboration may be in the form of sharing of best practices, joint policy initiatives, and strengthening of both countries’ response to climate change, among others [bold added] (Paragraph 18).

See our OIA to the Ministry of Foreign Affairs and Trade (MFAT) on the issue.<sup>25</sup> Importantly, the above MoUs are unlikely to meet the specific requirements for inclusion as an Article 6 pipeline. To date, there are a number of bilateral agreements already in place, predominantly being progressed by Japan, Singapore and Switzerland. See Tables 2 and 3, copied from the Excel spreadsheet found on the Article 6 Pipeline website.<sup>26</sup>



Table 2. Number of bilateral agreements by buying country

Countries	
Japan	29
Singapore	22
Switzerland	17
South Korea	9
Sweden	5
Norway	3
Australia	2
Kuwait	1
Liechtenstein	1
Monaco	1
United Arab Emirates	1
<b>Total</b>	<b>91</b>

Table 3. Number of bilateral agreements by status

BA (signed)	20
BA (negotiated)	3
MoU	56
Other	12
<b>Total</b>	<b>91</b>

## 2. 7 October 2024: RNZ article reports on the extent of support from political parties

### (i) National Party

According to a 7 October 2024 article, the National Party supports the purchase of offshore carbon credits.

In 2015, John Key’s Government advised that its decision to sign the Paris Agreement would remain provisional pending access to carbon markets (which was later incorporated into Article 6).<sup>27</sup> In September 2024, New Zealand’s former lead climate negotiator Kay Harrison told the 2024 Climate Change and Business Conference that, back in 2014/15, when country targets were first being negotiated, New Zealand fought to be allowed to count offshore action towards its target. John Key’s government ‘refused to commit to its Paris pledge until it was confirmed that countries could take advantage of buying help offshore’.<sup>28</sup> This was on the basis that it was cheaper and less damaging to the New Zealand economy to purchase offshore carbon credits than to sign the Paris Agreement and try to meet the target by drastically cutting domestic emissions.<sup>29</sup> Kay Harrison’s observation is further supported by the 2015 *Submission to the ADP: New Zealand’s Intended Nationally Determined Contribution*.<sup>30</sup>

### (ii) ACT

According to a 7 October 2024 article, ACT supports the purchase of offshore carbon credits.

### (iii) NZ First Party

According to a 7 October 2024 article, the NZ First Party has decided not to confirm its position on purchasing offshore carbon credits at this point in time.

The article states:

Government coalition partner NZ First is refusing to say whether it would support New Zealand buying climate action from other countries ...

The third coalition party, Act, supports offshore trading in carbon credits, the party confirmed, though it has previously been relaxed about whether New Zealand met its international climate pledge.

The Government has repeatedly said it is committed to meeting the target, known as an NDC (Nationally Determined Contribution).

In his statement last week, Watts acknowledged the country can not meet the target without some overseas contribution - and acknowledged that successive Governments had always expected to buy in help from offshore.

‘Domestic action continues to be prioritised. However, the scale of emission reductions required to meet the first NDC is greater than what’s feasible through domestic action alone,’ he said.

He said New Zealand had signed high level memorandums of understanding on potential offshore trading with Singapore, the Philippines and Thailand when he and Prime Minister Christopher Luxon visited those countries in April.<sup>31</sup>

### **3. 9 October 2024: Climate Change Minister Simon Watts appointed as one of the Ministerial Pairs for operationalising Article 6**

**H.E. Grace Fu Hai Yien, Minister for Sustainability and the Environment of Singapore and H.E. Simon Watts, Minister of Climate Change of New Zealand** have been appointed as the **Ministerial Pair on Article 6**, to help fully operationalise this important part of the Paris Agreement, which sets out how countries can pursue voluntary cooperation to reach their climate targets. The full operationalisation of Article 6 is one of the COP29 Presidency’s main priorities for its vision to enhance ambition and enable action. The Ministerial Pair will guide political consultations on Article 6 to build momentum to finalise its implementation at COP29 [underline added].<sup>32</sup>

### **4. 9 October 2024: New Zealand Climate Change Ambassador appointed**

Climate Change Minister Simon Watts announced Stuart Horne as New Zealand’s second Climate Change Ambassador, replacing Kay Harrison.

Stuart’s understanding of the transition to a net-zero economy will be a huge asset, with climate change becoming a more central focus to strengthening New Zealand’s relationships with key counterparts. His expertise will be beneficial in supporting New Zealand’s economic, trade, and climate goals. ‘I am pleased to welcome someone of Stuart’s calibre to this important role, given his expertise in foreign policy, trade, and economics, along with strong business connections,’ Mr Watts says.<sup>33</sup>

### **5. 14 October 2024: Motu publishes Note 54 – Think globally, act cooperatively: Progressing offshore mitigation for Aotearoa New Zealand**

This paper states:

Delivering on the 2030 NDC through domestic action alone would be highly disruptive to the New Zealand economy, threatening a just transition across sectors, regions, and communities. Failing to meet the 2030 NDC would short-change the climate system, and could raise significant risks for international relations and trade agreements.... Offshore mitigation under Article 6 can be used strategically to boost New Zealand’s global climate contribution beyond ambitious domestic mitigation, provided the challenges and risks are managed. Government action is needed as a matter of urgency to build a portfolio of supply options under Article 6.2.<sup>34</sup>

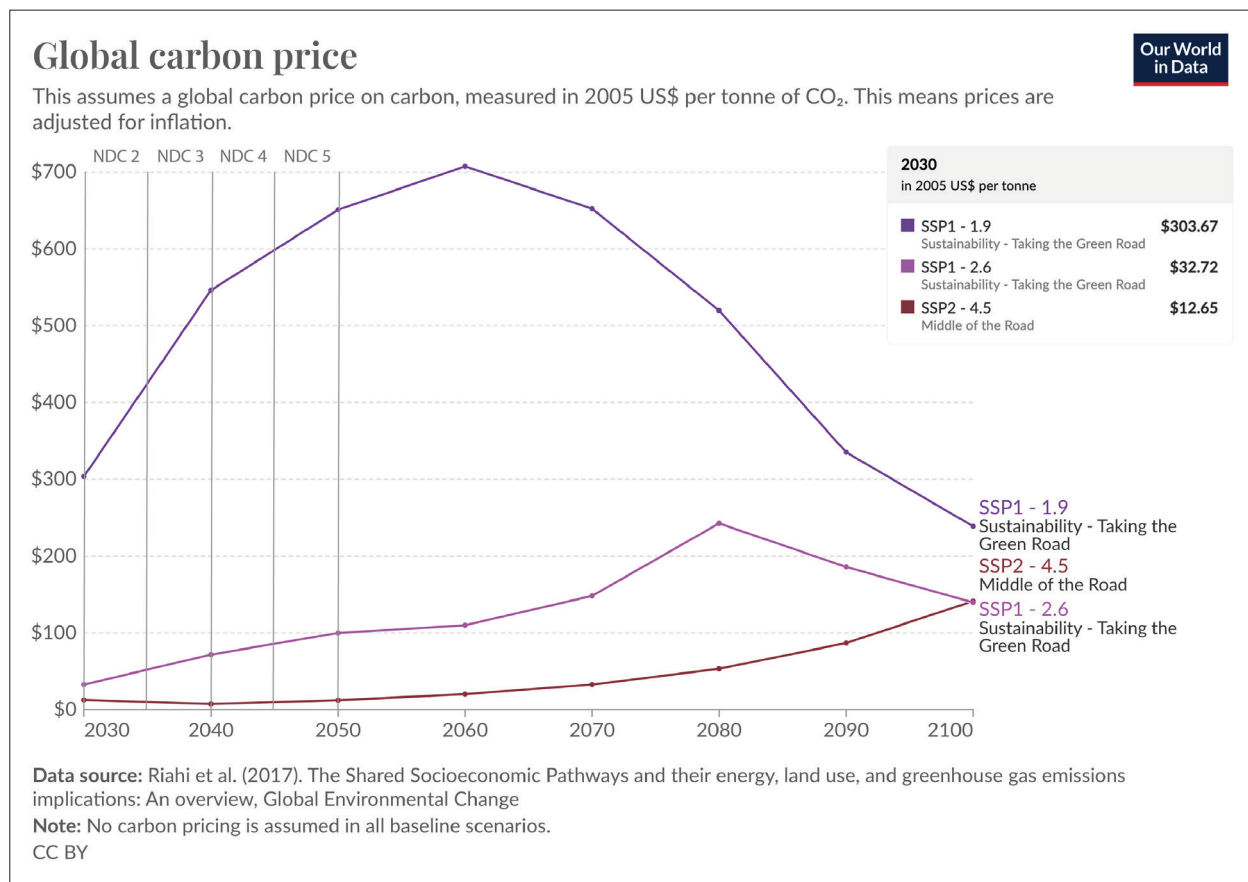
## Appendix 7: The financial commitment in 2030

Note: In practice there is not a global carbon market and therefore no global price; however, the prices below are listed in the Commentary (see Appendix 1). Based on the current estimate of 93 Mt, the range could be anything between NZ\$2 billion and NZ\$46 billion (93 Mt times US\$303.67 per tonne equals US\$28.2 billion, see calculation below for NZ\$ equivalent). This top price would be quite extreme, and highly improbable. According to a 7 October 2024 RNZ article, “Treasury has said the costs of buying overseas action would be “significant” and will start biting “within the current fiscal forecast period” - with a starting price of around \$4 billion tonnes for the 2021-2030 decade.”<sup>35</sup>

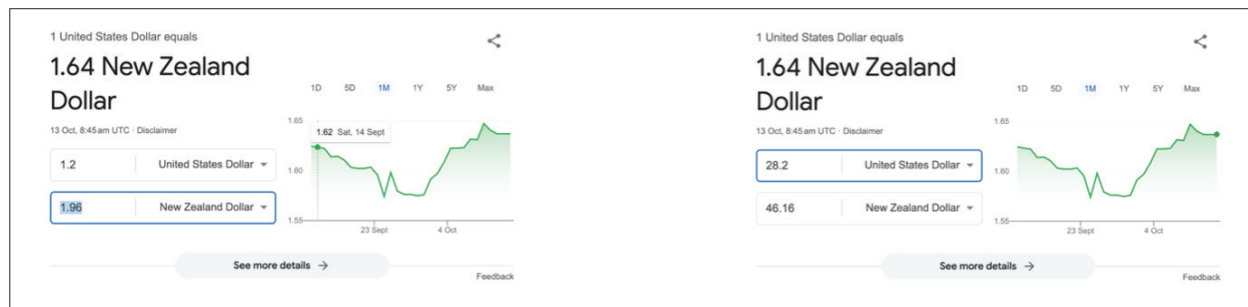
The size of the curve is important. The implication is that subsequent NDCs are likely to result in a much higher cost of carbon than we are currently seeing.

Table 4: Global carbon price

Adapted from Our World in Data. (n.d.)<sup>36</sup>



## Currency conversion, 13 October 2024



## Endnotes

- 1 See McGuinness Institute. (June 2024). *Discussion Paper 2024/01: Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?* Retrieved 12 June 2024 from [www.mcguinnessinstitute.org/publications/discussion-papers](http://www.mcguinnessinstitute.org/publications/discussion-papers)
- 2 See The Treasury. (10 October 2024). *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024*. Retrieved 12 June 2024 from [www.treasury.govt.nz/publications/year-end/financial-statements-2024](http://www.treasury.govt.nz/publications/year-end/financial-statements-2024)
- 3 See the meaning of GAAP in the Public Finance Act 1989, s 26H: Generally accepted accounting practice: ‘All financial statements and forecast financial statements included in reports and updates required under this Part must be prepared in accordance with generally accepted accounting practice.’
- 4 See International Auditing and Assurance Standards Board (IAASB). (1 October 2015). *ISA (NZ) 720 (Revised): The Auditor’s Responsibilities Relating to Other Information*, p. 8. Retrieved 12 June 2024 from [www.xrb.govt.nz/dmsdocument/635](http://www.xrb.govt.nz/dmsdocument/635)
- 5 See McGuinness Institute. (June 2024). *Discussion Paper 2024/01: Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?*, p. 43. Retrieved 12 June 2024 from [www.mcguinnessinstitute.org/publications/discussion-papers](http://www.mcguinnessinstitute.org/publications/discussion-papers)
- 6 See McGuinness Institute. (17 October 2024). *Minister Watts at Climate Change & Business Conference (Auckland, 2024)* [video]. YouTube. Retrieved 17 October 2024 from [www.youtube.com/watch?v=C6Tr2tPRT94=](https://www.youtube.com/watch?v=C6Tr2tPRT94=)
- 7 See New Zealand’s *Submission to the ADP: New Zealand’s Intended Nationally Determined Contribution*. (7 July 2015). It states that ‘New Zealand’s INDC will remain provisional pending confirmation of the approaches to be taken in accounting for the land sector, and confirmation of access to carbon markets’ and ‘New Zealand will communicate its final NDC following agreement on the rules to apply in the above areas’. It also notes: ‘The limited domestic abatement potential available to New Zealand requires us to make use of global carbon markets to be able to make a contribution that progresses beyond our current target, as this INDC does.’ Retrieved 12 October 2024 from [www4.unfccc.int/sites/submissions/INDC/Published%20Documents/New%20Zealand/1/New%20Zealand%20INDC%202015.pdf](http://www4.unfccc.int/sites/submissions/INDC/Published%20Documents/New%20Zealand/1/New%20Zealand%20INDC%202015.pdf)
- See United Nations (UN). (12 December 2015). Paris Agreement. It states ‘parties shall, where engaging on a voluntary basis in cooperative approaches that involve the use of internationally transferred mitigation outcomes towards nationally determined contributions, promote sustainable development and ensure environmental integrity and transparency, including in governance, and shall apply robust accounting to ensure, inter alia, the avoidance of double counting, consistent with guidance adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement’ (Article 6, Para 2). Retrieved 15 October 2024 from [unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](http://unfccc.int/sites/default/files/english_paris_agreement.pdf)
- 8 See Ministry for the Environment. (3 July 2023). *Nationally Determined Contribution Strategy* [Cabinet Paper], Appendix 1: *Nationally Determined Contribution Strategy*. Retrieved 6 January 2024 from [environment.govt.nz/assets/publications/NDC-strategy-proactive-release.pdf](http://environment.govt.nz/assets/publications/NDC-strategy-proactive-release.pdf)
- See Cabinet Office. (3 July 2023). *Nationally Determined Contribution Strategy – Minute of Decision* [CAB-23-MIN-0283]. Retrieved 6 January 2024 from [environment.govt.nz/assets/publications/NDC-strategy-proactive-release.pdf](http://environment.govt.nz/assets/publications/NDC-strategy-proactive-release.pdf)
- 9 For more about the Article 6 Pipeline, see United Nations Environment Programme (UNEP). (7 October 2024). Article 6 Pipeline. ‘Article 6 of the Paris Agreement provides a framework for countries to cooperate towards the implementation of their Nationally Determined Contributions (NDCs) through carbon markets (Articles 6.2 and 6.4) and non-market modalities (Article 6.8).



- These cooperative approaches can help countries to achieve and enhance their NDC targets. The overall objective is to increase climate ambition, promote sustainable development, and safeguard environmental integrity.’ Retrieved 12 October 2024 from [unepccc.org/article-6-pipeline](https://unepccc.org/article-6-pipeline)
- 10 See The Treasury. (10 October 2024). *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024*, p. 30. Retrieved 12 June 2024 from [www.treasury.govt.nz/publications/year-end/financial-statements-2024](https://www.treasury.govt.nz/publications/year-end/financial-statements-2024)
  - 11 See He Pou a Rangi – Climate Change Commission. (n.d.). Report on the potential domestic contribution to the second nationally determined contribution. Retrieved 12 October 2024 from [www.climatecommission.govt.nz/our-work/advice-to-government-topic/nationally-determined-contributions/ndc2-report](https://www.climatecommission.govt.nz/our-work/advice-to-government-topic/nationally-determined-contributions/ndc2-report)
  - 12 See McGuinness Institute. (June 2024). *Discussion Paper 2024/01: Risks Hiding in Plain Sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?*, p. 81. Retrieved 12 June 2024 from [www.mcguinnessinstitute.org/publications/discussion-papers](https://www.mcguinnessinstitute.org/publications/discussion-papers)
  - 13 See McGuinness Institute. (n.d.). Cabinet papers related to climate change. Retrieved 14 October 2024 from [www.mcguinnessinstitute.org/research-projects/climate-change-nz/cabinet-papers-related-to-climate-change](https://www.mcguinnessinstitute.org/research-projects/climate-change-nz/cabinet-papers-related-to-climate-change)
  - 14 See Our World in Data. (n.d.). IPCC Scenarios Data Explorer – Global carbon price. Retrieved 14 October 2024 from [ourworldindata.org/explorers/ipcc-scenarios?time=2030..latest&country=SSP1+-+1.9~SSP2+-+4.5~SSP1+-+2.6&Metric=Carbon+price&Rate=Per+capita&Region=Global](https://ourworldindata.org/explorers/ipcc-scenarios?time=2030..latest&country=SSP1+-+1.9~SSP2+-+4.5~SSP1+-+2.6&Metric=Carbon+price&Rate=Per+capita&Region=Global)
  - 15 See RNZ. (7 October 2024). New Zealand First refuses to say if it would support buying climate action from other countries. Retrieved 10 October 2024 from [www.rnz.co.nz/news/national/530007/new-zealand-first-refuses-to-say-if-it-would-support-buying-climate-action-from-other-countries](https://www.rnz.co.nz/news/national/530007/new-zealand-first-refuses-to-say-if-it-would-support-buying-climate-action-from-other-countries)
  - 16 See McGuinness Institute. (October 2024). *Working Paper 2024/11 – Illustration of the Government’s financial reporting system*. Retrieved 15 October 2024 from [www.mcguinnessinstitute.org/publications/working-papers](https://www.mcguinnessinstitute.org/publications/working-papers)
  - 17 See The Treasury. (10 October 2024). *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024*, pp. 23–24. Retrieved 12 June 2024 from [www.treasury.govt.nz/publications/year-end/financial-statements-2024](https://www.treasury.govt.nz/publications/year-end/financial-statements-2024)
  - 18 See The Treasury. (10 October 2024). *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024*, p. 35. Retrieved 12 June 2024 from [www.treasury.govt.nz/publications/year-end/financial-statements-2024](https://www.treasury.govt.nz/publications/year-end/financial-statements-2024)
  - 19 See The Treasury. (10 October 2024). *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2024*, pp. 50, 62. Retrieved 12 June 2024 from [www.treasury.govt.nz/publications/year-end/financial-statements-2024](https://www.treasury.govt.nz/publications/year-end/financial-statements-2024)
  - 20 See The Treasury. (5 October 2023). *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2023*, p. 54. Retrieved 12 June 2024 from [www.treasury.govt.nz/publications/year-end/financial-statements-2023](https://www.treasury.govt.nz/publications/year-end/financial-statements-2023)
  - 21 See International Public Sector Accounting Standards Board (IPSASB). (20 December 2023). *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, pp. 23–27, 47–49, 58–59. Retrieved 14 October 2024 from [www.ipsasb.org/publications/conceptual-framework-general-purpose-financial-reporting-public-sector-entities-2023](https://www.ipsasb.org/publications/conceptual-framework-general-purpose-financial-reporting-public-sector-entities-2023)
  - 22 See Beehive. (8 April 2024). *PM heads to Singapore, Thailand, and Philippines* [press release]. Retrieved 10 October 2024 from [www.beehive.govt.nz/release/pm-heads-singapore-thailand-and-philippines](https://www.beehive.govt.nz/release/pm-heads-singapore-thailand-and-philippines)

- 23 See RNZ. (14 October 2024). Public not sold on sending money overseas for climate mitigation. Retrieved 20 October 2024 from [www.rnz.co.nz/national/programmes/ninetoonoon/audio/2018959679/public-not-sold-on-sending-money-overseas-for-climate-mitigation](http://www.rnz.co.nz/national/programmes/ninetoonoon/audio/2018959679/public-not-sold-on-sending-money-overseas-for-climate-mitigation)
- 24 See McGuinness Institute. (17 October 2024). *Minister Watts at Climate Change & Business Conference (Auckland, 2024)* [video]. YouTube. Retrieved 17 October 2024 from [www.youtube.com/watch?v=C6Tr2tPRt94=](http://www.youtube.com/watch?v=C6Tr2tPRt94=)
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- 26 See United Nations Environment Programme (UNEP). (7 October 2024). Article 6 Pipeline Excel spreadsheet, Tables 3, 5. Retrieved 10 October 2024 from [unepccc.org/article-6-pipeline](http://unepccc.org/article-6-pipeline)
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