

Submission

**2024/25 International Public Sector Accounting Standards
Board Exposure Draft:
Public sector climate-related disclosure standard**
February 2025 (Final)

About the McGuinness Institute

The Institute was founded in 2004 as a non-partisan think tank working towards a sustainable future for Aotearoa New Zealand. Project 2058 is the Institute's flagship project focusing on Aotearoa New Zealand's long-term future. Because of our observation that foresight drives strategy, strategy requires reporting, and reporting shapes foresight, the Institute developed three interlinking policy projects: *ForesightNZ*, *StrategyNZ* and *ReportingNZ*. Each of these tools must align if we want Aotearoa New Zealand to develop durable, robust and forward-looking public policies. The policy projects frame and feed into our research projects, which address a range of significant issues facing Aotearoa New Zealand. The 11 research projects are: *CivicsNZ*, *ClimateChangeNZ*, *EcologicalCorridorsNZ*, *GlobalConflictNZ*, *OneOceanNZ*, *PandemicNZ*, *PublicScienceNZ*, *ScenariosNZ*, *TacklingPovertyNZ*, *TalentNZ* and *WaterFuturesNZ*.

About the cover

Raglan, Aotearoa New Zealand, 2025. This photo was chosen to reflect the saying, 'Red sky at night, shepherd's delight. Red sky in the morning, shepherd's warning'. A version of this saying first appeared in the Bible in the book of Matthew, and it was used by shepherds to prepare for the next day's weather. The photo was taken in the morning, suggesting we need to prepare for bad weather.

Table of Contents

Executive Summary	4
1.0 Introduction	9
2.0 McGuinness Institute Research	10
3.0 Direct Responses to IPSASB Invitations to Comment	23
4.0 Recommendations	37
5.0 Conclusion	38

Appendices

Appendix 1: McGuinness Institute Publications Relating to Climate	39
Appendix 2: Excerpt From the 2024 <i>Financial Statements of the Government of New Zealand</i>	44

Figures

Figure 1: How we see the IPSASB Climate-related Disclosures would sit within the wider IPSASB framework	5
Figure 2: Excerpt from the McGuinness Institute’s <i>Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study</i>	12
Figure 3: McGuinness Institute policy projects and research projects	13
Figure 4: The Strategy Pyramid	14
Figure 5: The extent government department GDSs respond/mention climate change	16
Figure 6: New Zealand’s NDC strategy to purchase offshore carbon credits	18
Figure 7: Excerpt from the 2024 <i>Financial Statements of the Government of New Zealand</i>	19
Figure 8: Excerpt from the 2024 <i>Financial Statements of the Government of New Zealand</i>	21
Figure 9: ‘Materiality’ discussed in the <i>Conceptual Framework</i>	31
Figure 10: ‘Users’ discussed in the <i>Conceptual Framework</i>	31
Figure 11: ‘Other User Groups’ discussed in the <i>Conceptual Framework</i>	32
Figure 12: ‘Primary User Groups’ discussed in the <i>Conceptual Framework</i>	33

EXECUTIVE SUMMARY

Given the length of and detail contained in the *2024/25 International Public Sector Accounting Standards Board exposure draft public sector climate-related disclosure standard (Exposure Draft)*, the Institute has set out our major concerns in the following boxes, with suggestions. Each box contains the existing *Exposure Draft* text in grey, followed by our proposed solution. A detailed explanation of our thinking is contained in the remainder of our submission.

If you have any questions or points of clarification, please contact us. This is important work, and we are keen to assist the IPSASB in whatever way we can.

Please note that we agree with the intention and purpose of the *Exposure Draft* and much of the detail. However, below we focus on possible improvements that would place more onus on the preparer and the user and provide wider scope for development over time. These observations are based on our research (see a list of our previous publications in Appendix 1).

The Institute considers that the final standard should:

- push preparers to focus on answering two questions: (a) how will climate impact the public sector entity's own operations; and (b) how will the public sector entity's policies impact climate?
- provide standard setters with a firm base that can be used to build an evidence-based strategy for developing a more detailed and agile climate-reporting framework for the public sector over the next 10 years
- emphasise that preparers (and indirectly auditors) of climate information have an obligation to seek out the reporting needs of users and to deliver relevant, understandable, timely, comparable and verifiable information that faithfully represents the situation in a way that is complete, neutral and free from material error (i.e. Chapter 3 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework)*, and
- provide users with information for understanding how the reporting entity's long-term actions might impact their wellbeing and that of future generations, and where appropriate, to help users make decisions and seek out further climate-related information.

Key recommendations include:

1. **Remove 'programs and their outcomes'.**
The Institute recommends that the definition of 'climate-related public policy programs and their outcomes' be broadened to encompass all policy documents and actions that aim to achieve climate-related outcomes for the public good. We consider this approach would offer more flexibility as climate change reporting evolves over time. Given this is the first sustainability standard, it seems prudent to focus on concepts rather than rules. A guidance document could be prepared at a later stage to illustrate practical examples.
2. **Remove 'primary users' and instead focus on all users.**
We consider that climate impacts everyone, therefore there is no common primary user. If a preparer considers it is important to state the primary user, we suggest that they list in their report what specific users the report has been written for. For example, in the case of a local council, a preparer may wish to state that the primary user is 'all ratepayers'.
3. **Remove the test that the 'primary objective is climate-related'.**
We consider that there are many reports that embed climate change in the detail, and it is hard to identify when a programme of action has climate as its primary objective versus when it's a secondary objective. The proposed test makes it hard for preparers to determine when a report does (or doesn't) contain a climate-related primary objective. This test also unintentionally reduces the scope of the standard. For example, all local government 10-year plans consider climate change as part of their overarching plan for the region, generally in terms of adaptation, but also in terms of emissions reduction. It would be hard to argue that climate is the primary

objective, so it would not meet the test set out in the standard. Instead, we suggest you set the context and let the preparer and auditor establish what is climate-related policy and what the user would like to know.

Figure 1: How we see the IPSASB Climate-related Disclosures would sit within the wider IPSASB framework

IPSASB Conceptual Framework	Type of reporting	Standards	Individual entity's own operations Q: How will climate impact the public sector entity's own operations?	Individual entity's government contribution Q: How will the public sector entity's activities impact climate?
	Financial reporting	International Public Sector Accounting Standards® (IPSAS®)	Reports Annual report: – Management commentary – Financial statements – Notes to the financial statements Examples: i. Purchase of carbon-offsets ii. Obligation to purchase offshore carbon credits in order to meet a country's Nationally Determined Contribution (NDC) (e.g. reported as a provision or contingent liability)	Not applicable
	Sustainability reporting	IPSASB Sustainability Reporting Standards™ (IPSASB SRS™)	<i>Public sector climate-related disclosure standard</i> (proposed) Reporting by four pillars: 1. Governance 2. Risk Management 3. Strategy 4. Metrics and Targets	<i>Public sector climate-related disclosure standard</i> (proposed) Reporting by climate policy: 1. Emissions reduction 2. Adaptation

The implications of our three recommendations are as follows:

Key:

Grey box contains the existing proposed text in the *Exposure Draft*

Yellow refers to text that the Institute considers should be added (and replaces existing text)

Red strikethrough refers to text that the Institute considers should be removed

Proposed: 1. The objective of this [draft] Standard is to provide principles for an entity to disclose information in its general purpose financial reports about climate-related risks and opportunities to its own operations, and outcomes of its climate-related public policy programs, that is useful to primary users for accountability and decision-making purposes.
Our suggestion: 1. The objective of this [draft] Standard is to provide principles for an entity to disclose information in its general purpose financial reports on how climate will impact the public sector entity's own operations about climate-related risks and opportunities , and how the public sector entity's policies will impact climate outcomes of its climate-related public policy programs , that is useful to primary users for accountability and decision-making purposes.

Governance pillar Proposed: 8. The objective of climate-related disclosures on governance is to enable primary users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee: (a) Climate-related risks and opportunities to its own operations; and (b) Climate-related public policy programs and their outcomes.
Our suggestion: 8. The objective of climate-related disclosures on governance is to enable primary users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee: (a) Climate-related risks and opportunities to its How climate will impact the public sector entity's own operations; and (b) Climate-related public policy programs and their outcomes How the public sector entity's policies will impact climate.

Strategy pillar Proposed: 10. The objective of climate-related disclosures on strategy is to enable primary users of general purpose financial reports to understand an entity's strategy for managing: (a) Climate-related risks and opportunities to its own operations; and (b) Climate-related public policy programs and their outcomes.
Our suggestion: 10. The objective of climate-related disclosures on strategy is to enable primary users of general purpose financial reports to understand an entity's strategy for managing: (a) Climate-related risks and opportunities to its How climate will impact the public sector entity's own operations; and (b) Climate-related public policy programs and their outcomes How the public sector entity's policies will impact climate.

Risk and Outcome Management pillar

Proposed:

13. The objective of climate-related disclosures on risk and outcome management is to enable primary users of general purpose financial reports to understand an entity's processes to identify, assess, prioritize and monitor:

- (a) Climate-related risks and opportunities to its own operations, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- (b) Anticipated and unanticipated challenges to the achievement of the intended outcomes of the climate-related public policy programs, including whether and how those processes are integrated into and inform the entity's overall risk management process.

Our suggestion:

13. The objective of climate-related disclosures on risk and outcome management is to enable ~~primary~~ users of general purpose financial reports to understand an entity's processes to identify, assess, prioritize and monitor:

- (a) ~~Climate-related risks and opportunities to its~~ How climate will impact the public sector entity's own operations, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- (b) ~~Anticipated and unanticipated challenges to the achievement of the intended outcomes of the climate-related public policy programs~~ How the public sector entity's policies will impact climate, including whether and how those ~~processes~~ policies are integrated into and inform the entity's overall risk management process.

Metrics and Targets pillar

Proposed:

16. The objective of climate-related disclosures on metrics and targets is to enable primary users of general purpose financial reports to understand an entity's performance, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation, in relation to:

- (a) Climate-related risks and opportunities to its own operations (see paragraphs 17– 25); and
- (b) Climate-related public policy programs and their outcomes (see paragraphs 26–27).

Our suggestion:

16. The objective of climate-related disclosures on metrics and targets is to enable ~~primary~~ users of general purpose financial reports to understand an entity's performance, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation, in relation to:

- (a) ~~Climate-related risks and opportunities to its~~ How climate will impact the public sector entity's own operations (see paragraphs 17– 25); and
- (b) ~~Climate-related public policy programs and their outcomes~~ How the public sector entity's policies will impact climate (see paragraphs 26–27).

Definitions

Proposed:

Climate-related public policy programs are public policy programs with a primary objective to achieve climate-related outcomes.

Public policy programs are any type or set of interventions taken or mandated by a public sector entity exercising its sovereign powers to influence the decisions or behaviours of other entities or individuals.

Public policy program outcomes are the impacts on the economy, environment and/or people, which occur as a result of, or are reasonably attributable to, the public policy programs.

Our suggestion:

Climate-related public policy programs comprises documents published in the public arena by a public sector entity that contain information on actions taken or actions proposed to mitigate or adapt to climate change. These include strategies, plans, programs and initiatives ~~with a primary objective~~ that aim to achieve climate-related outcomes for the public good.

Public policy programs actions are any type or set of interventions taken or mandated by a public sector entity exercising its sovereign powers to influence the decisions or behaviours of other entities or individuals.

~~Public policy program outcomes are the impacts on the economy, environment and/or people, which occur as a result of, or are reasonably attributable to, the public policy programs.~~

Our suggested additions:

(a) Four pillars

Governance

The system by which a public sector entity identifies, manages and controls climate-related risks and opportunities. It involves a set of relationships between government, management, its board (if there is one), and its stakeholders. Governance provides the structure and processes through which the objectives of the public sector entity are set, progress against performance is monitored, and results are evaluated.¹

Strategy

The approach the public sector entity has chosen to take to achieve one or a number of climate-related goals. Strategy includes identifying the climate-related goals (the ends), as well as reporting on past and future initiatives, actions, and/or plans (the means) that the entity has implemented or is planning to implement. Hence, strategy is the means to the end.²

Risk Management

The processes used by the public sector entity to identify, assess, and manage climate-related risks and opportunities.³

Metrics and Targets

The metrics and targets used by the public sector entity to assess and manage relevant climate-related risks and opportunities.⁴

1.0 INTRODUCTION

The Institute welcomes the opportunity to offer feedback on the *2024/25 International Public Sector Accounting Standards Board exposure draft public sector climate-related disclosure standard (Exposure Draft)*.

We would like to thank the External Reporting Board (XRB) for inviting early feedback on this proposal in order to provide a New Zealand submission.

1.1 How to read this submission

The submission is in two parts.

Section 2 sets out a diverse range of observations gathered from our research.

Section 3 responds directly to the ten questions raised by the International Public Sector Accounting Standards Board (IPSASB).

Sections 4 and 5 set out our high-level recommendations and our conclusion.

Our understanding of the wider IPSASB framework is set out in Figure 1 (p. 5). We consider this, or a similar figure, would benefit the resulting standard, particularly given it will be the first sustainability standard published by the IPSASB.

2.0 MCGUINNESS INSTITUTE RESEARCH

This section sets out our observations, assumptions, research findings and thinking.

Section 2.1 brings together a list of observations and assumptions.

Section 2.2 briefly discusses McGuinness Institute research that is relevant to this submission. While the research topics may appear ad hoc and disjointed, the aim is to provide context for the discussion that follows in Section 3, without being repetitive.

2.1 Observations and Assumptions

In preparing our response, we are mindful that:

- 2024 was the first year that temperatures crossed the threshold of 1.5 degrees Celsius above the pre-industrial average, with the last ten years being the ten warmest years on record.⁵ Extreme weather events, such as droughts, cyclones and wildfires, are becoming more extreme and are happening across the world.
- Climate change is a local, national and worldwide event, and reporting will need to be local, national and worldwide.
 - Accounting for the impacts of climate change on *a country basis* is not well covered under the Paris Agreement. Wildfires, in particular, require urgent attention in order to deliver national reporting on the emissions they release. By doing so, it will show how a national and global investment in fire prevention and management will deliver positive climate outcomes.
 - Accounting for the impacts of climate change on *an entity basis* is the aim of this *Exposure Draft*. It therefore represents an exciting opportunity for preparers (and auditors) to have a clear, consistent and useful climate-related disclosure standard that delivers users information to be better informed and make quality decisions. If we can develop an IPSASB sustainability reporting framework that enables the climate-related disclosure standard to evolve, public sector entities will be empowered with information to find solutions to climate change and citizens will be empowered due to transparent and accountable public sector entities.
- The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)*, finalised in 2014 and updated in 2023, establishes the concepts that are to be applied in developing Accounting Standards (IPSASs). The *2023 Conceptual Framework* does not mention the Sustainability Standards (IPSAS SRSs), and only refers to sustainability in terms of ‘the sustainability of the entity’s service delivery and other operations over the long term’ (see p. 14 of the *2023 Conceptual Framework*). This is likely to mean the *2023 Conceptual Framework* will need to be updated before the *Exposure Draft* becomes a standard. It is also important to acknowledge that the conceptual framework may need more than a simple tweak, it may need an overhaul to ensure it is fit for the challenges ahead. In particular, the examples in the *2023 Conceptual Framework* may need to be revisited.
- Reporting on climate change occurs through the application of financial standards as well as sustainability standards. More work needs to be undertaken on reporting on the application of financial standards to climate. The OAG discusses the challenges of accounting for climate change in financial statements in an excellent article on their website:

Current accounting standards don't explicitly require organisations to consider the implications of climate change on financial reporting. But there are various financial reporting aspects that are directly or indirectly affected by climate risks and opportunities – such as impairment, provisions, useful life assessments, and even the “going concern” assumption (having a sound enough financial position to keep operating). [and]

Organisations might also need to rethink the estimates of useful life and the amortisation basis (spreading costs over time) used for intangible assets. They, too, could be affected by technical disruption and emerging technologies.⁶

Examples include:

- The reporting of carbon offsets and how they should be reported in the financial statements.
 - The reporting of assets that are no longer required due to technology change.
 - The reporting of climate risks (present and future) in the notes, for example, legal challenges, wildfires, water quality, flooding, overseas ports being compromised, and supply chain risks.
 - The Auditor-General found that no financial reporting standard exists that explicitly sets out whether or how nations should recognise their carbon reduction commitments in their financial statements.⁷ In our view, the IPSASB should fill this important gap (see discussion on p. 18).
- It is important to note that the resulting sustainability standards will likely be adopted globally by a large number of public sector entities, including national, regional and local governments, and related governmental agencies. This initial standard is therefore an important building block. It does not need to contain a lot of detail (as the detail can be added later), but it does need to set out some key principles and a clear purpose in order to create a solid foundation for ongoing discussions.
 - Key differences exist between the public and private sector; consequently, the reporting requirements will also be different. In that same way Mark Twain said ‘History doesn't repeat itself, but it does rhyme’, it could also be said that public sector climate-relating standards should not repeat private sector climate-related standards, but should rhyme. Key differences that need to be taken into consideration include:
 - A time dimension: Outcomes tend to be a lot longer for the public sector (e.g. 50 years versus 5 years for the private sector). Examples include infrastructure (e.g. power stations), health outcomes (e.g. cancer prevention), and education (e.g. invention, social cohesion).
 - A broader scope dimension. Outcomes are amplified into the private sector and the wider community (e.g. an entity's success versus the success of government, business and citizens).
 - A more complex set of measures. Outcomes are more integrated and more diverse.
 - The concept of double materiality (see Figure 2 below) is a useful framework for considering how climate goals and objectives are both *mandated to* public sector entities and *initiated/progressed by* public sector entities. Those goals and actions tend to be divided into mitigation strategies and adaptation strategies (see Figure 1, column 4). The two core

questions the Institute suggests should shape the IPSASB’s climate-related disclosures are based on this model.

Figure 2: Excerpt from the McGuinness Institute’s *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*

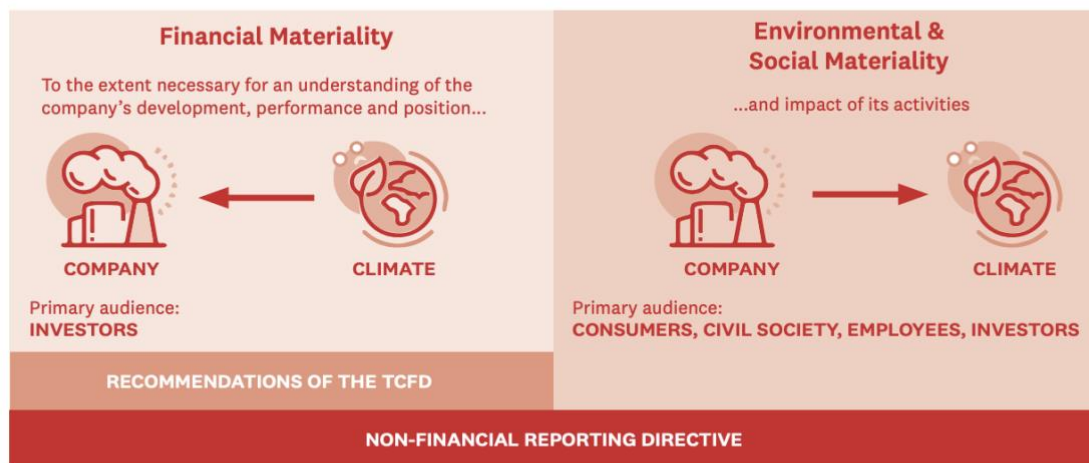
Source: McGuinness Institute (2019).⁸

7.6 The European Union response

In 2014, the European Union developed a non-financial reporting directive: *Directive 2014/95/EU*. In 2019, *Directive 2014/95/EU* was reinforced with supplementary ‘non-binding guidelines’ on reporting climate-related information: *Guidelines on non-financial reporting: Supplement on reporting climate-related information (the Guidelines)* (EU, 2019, p. 1).

Figure 28: The double materiality perspective

Source: (EU, 2019, p. 5)



The diagram from the EU (Figure 28) illustrates a ‘double materiality perspective’: the distinction between the impacts of climate change on the company and the impacts of the company on the climate (EU, 2019, p. 5). The *Recommendations of the TCFD* focus on the first perspective while, for example, the Climate Change Response (Zero Carbon) Amendment Bill focuses on the second perspective. The Guidelines also state ‘[i]t is very important for stakeholders to understand the company’s view of how climate change impacts its business model and strategy, and how its activities can affect the climate, over the short, medium and long term’ (EU, 2019, p. 8).

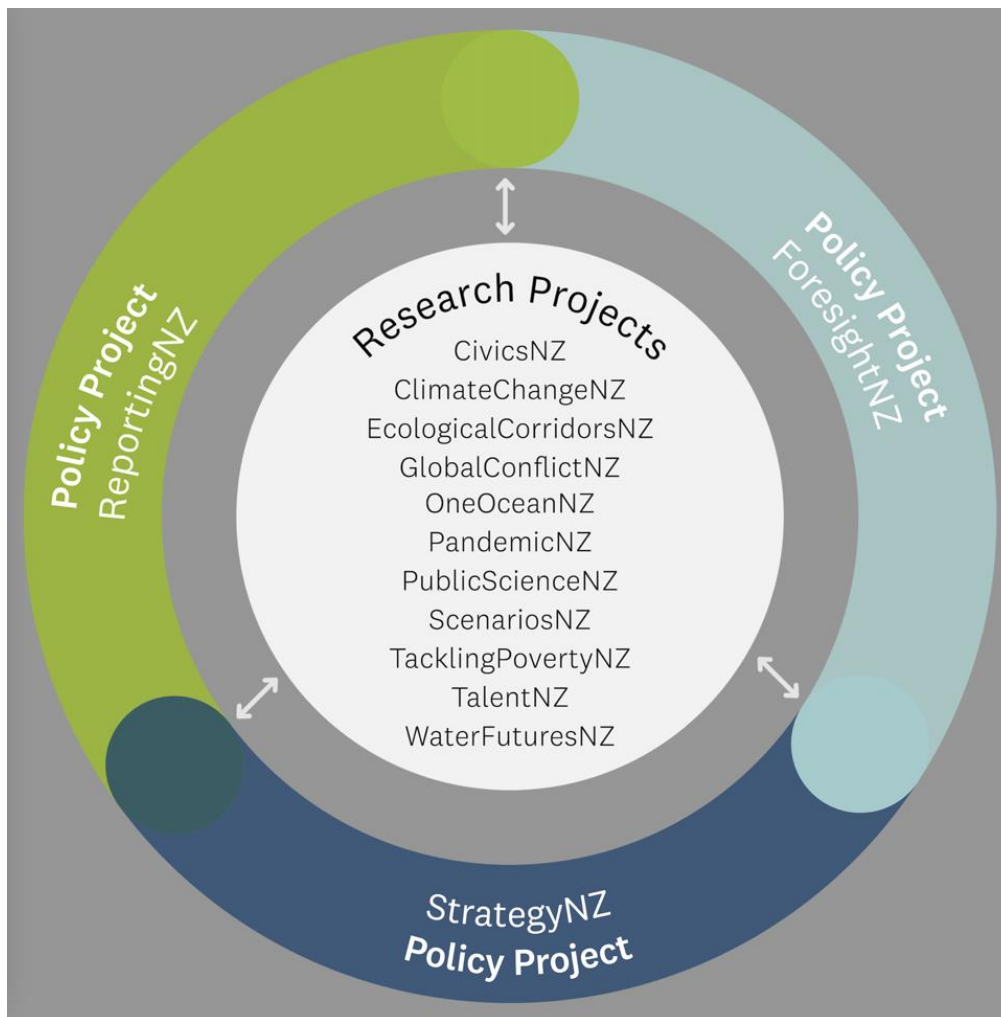
2.2 The important difference between strategy, reporting and foresight

When thinking about the process of policy-making, the Institute observed that foresight drives strategy, strategy requires reporting, and reporting in turn shapes foresight. In response to this observation, we developed three interlinking policy projects, illustrated in Figure 3 below. All three of these areas must be aligned if we want to develop durable, robust and forward-facing public policy.

If we want to inform users and improve decision making, it is essential to make space for reporting on foresight and strategy, both of which are forward-looking activities.

Figure 3: McGuinness Institute policy projects and research projects

Source: McGuinness Institute



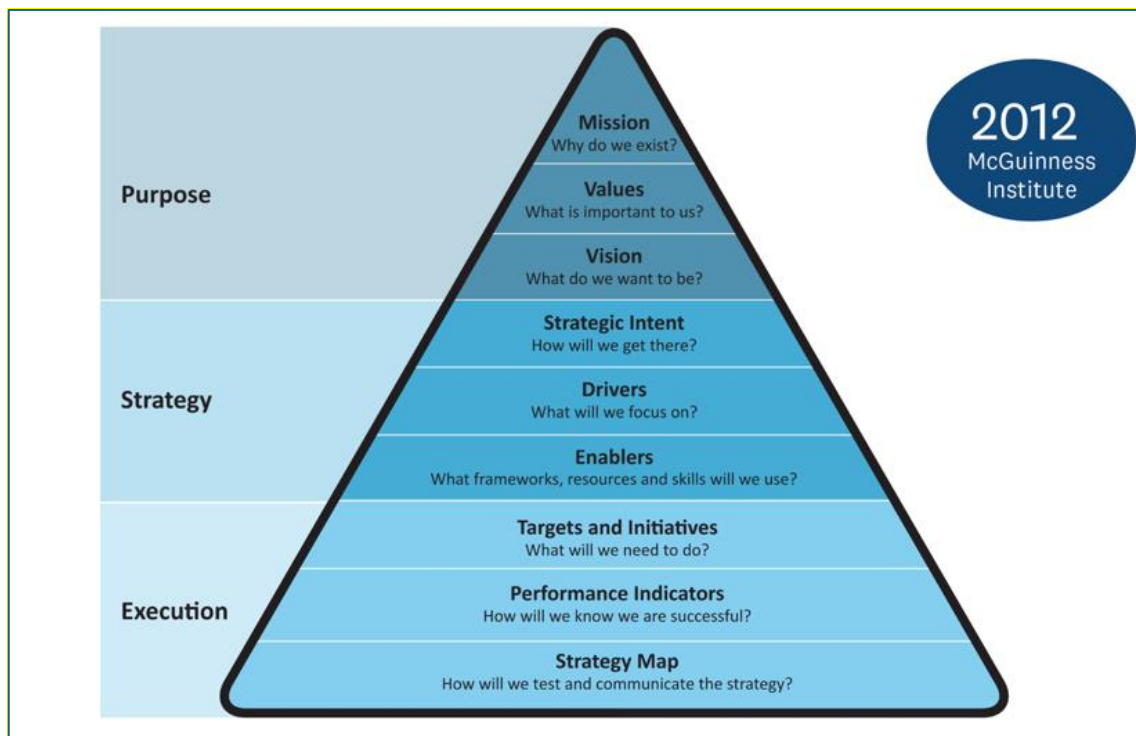
2.3 The Strategy Pyramid

In 2012, the Institute developed the Strategy Pyramid (see Figure 4) to help workshop participants understand strategy and where planning (execution) fits in. Importantly, the term strategy is used to mean many things. While there is a continuum between strategy development and execution, the distinction between the two is messy but important. For example, those that develop strategy are not the same people who execute strategy. Further, terms like mission, values and vision are often treated as part of strategy. Our view is that it is safer to use a wider range of terms in the definition (see bold below).

Climate-related public policy comprises documents published in the public arena by a public sector entity that contain information on actions taken or actions proposed to mitigate or adapt to climate change. These include **strategies, plans, programs and initiatives** that aim to achieve climate-related outcomes for the public good.

Figure 4: The Strategy Pyramid

Source: McGuinness Institute (2012).⁹



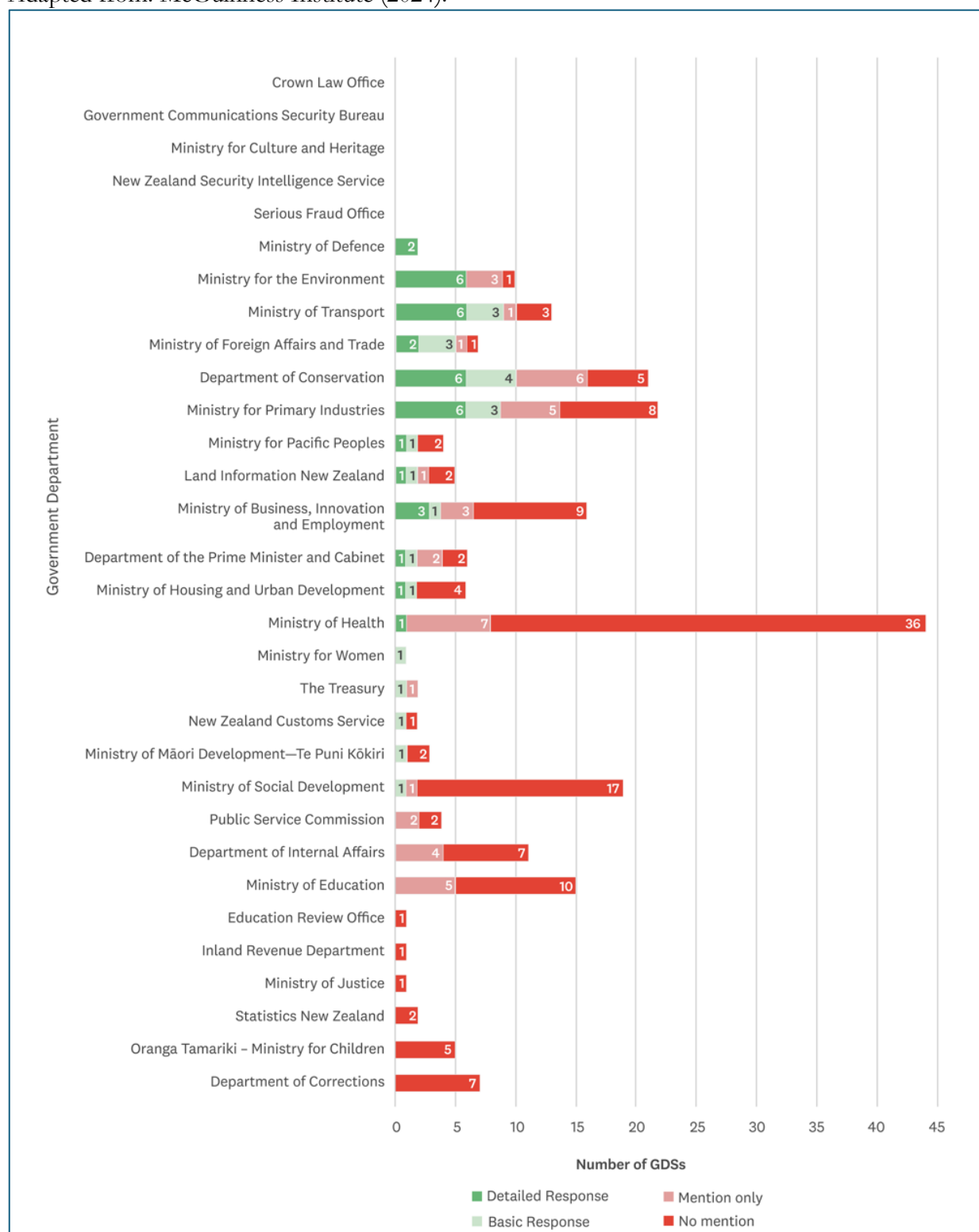
2.4 GDS Index Research

The Institute has regularly reviewed New Zealand government department strategies (GDSs) since 2014. Our *GDS Index* aims to illustrate how New Zealand might strengthen GDSs to be more effective, responsive, measurable, comparable and durable through public consultation, engagement and ownership.¹⁰

The Institute's 2023 *GDS Index* found:

- 56% (129 out of 230) of all operational GDSs did not mention climate change.
- 15.7% (36 out of 230) contained a detailed discussion of climate change impacts and how they will deliver better climate outcomes in terms of mitigation and adaptation.
- 35% (9 out of 26) of departments that published GDSs made little or no mention of climate change in any of their operational GDSs. See Figure 5 below.
- There was a lack of data and statistics on emissions or proposed emission reduction to shape GDSs.
- There was a lack of measurable steps to achieve emissions targets.
- There was a lack of transparency on who the consultants were and who the audiences are intended to be for each GDS. When it is unclear who is going to read and act on climate change action points, chances of implementation and success are reduced.
- There was no consistent format across GDSs and a lack of cross-department cooperation and analysis, making it difficult to compare different strategies and departments.
- There was a lack of reviewing, with no system or authority in place for regularly reviewing progress against GDSs, which reduces the chance of success. There is also a lack of clarity over who oversees implementation, which means strategy often doesn't turn into action.¹¹

Figure 5: The extent government department GDSs respond/mention climate change
 Adapted from: McGuinness Institute (2024).¹²



Notes to Figure 5: The extent government department GDSs respond/mention climate change

Note 1: ‘Mention only’ refers to GDSs that did not discuss climate change impacts and how to deliver better climate outcomes in any detail.

Note 2: Five departments did not publish any GDSs (the first five).

Note 3: The remaining 26 departments are ordered by the percentage of a department’s total GDSs that include: (i) detailed responses; then (ii) basic responses; then (iii) mentions only. Departments that did not have any GDSs that mentioned climate change are ordered by total number of GDSs. In practice this means that a department that has a large number of GDSs of which only one contains a detailed response will appear higher in the list than a department whose GDSs do not mention climate change at all.

2.5 Accounting for Nationally Determined Contribution (NDC)

Under the Paris Agreement, New Zealand has set a target to reduce net greenhouse gas emissions to 50% below gross 2005 levels (NDC1). New Zealand is currently not on track to achieve this, with an emissions gap of 89.2 Mt CO₂-e based on current projections of domestic emissions up to 2030.¹³

In 2024, the Institute published a technical discussion paper that explores whether a commitment by the New Zealand Government to purchase offshore carbon credits to offset emissions should be reported in the financial statements of the New Zealand Government. It was titled *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 Discussion Paper).¹⁴ In this paper, New Zealand's accounting standards were analysed, in particular, how climate obligations and risks should be reported on in financial statements. Although not all of our recommendations were implemented, the paper did contribute to an improvement in reporting.

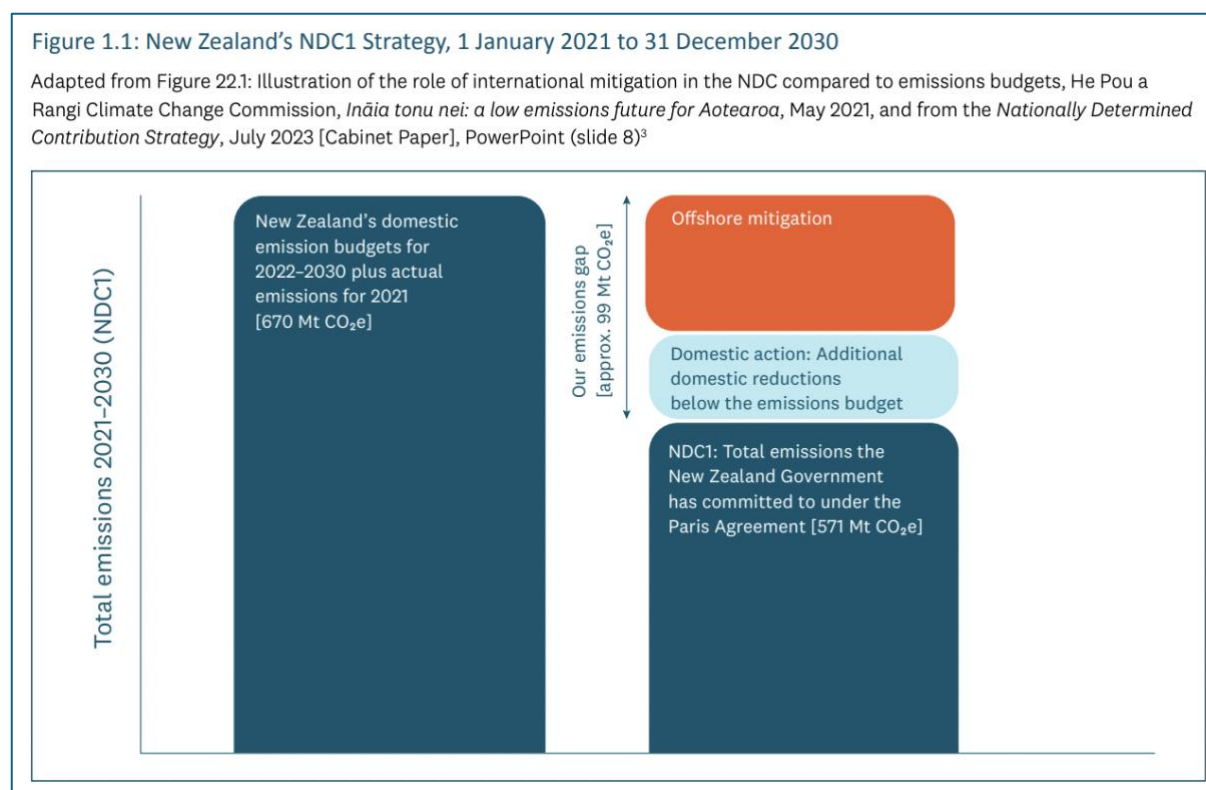
This case is a good example of how the two types of standards (financial accounting and sustainability) work together to report on the entity's performance and intentions in regard to climate. It is important that the climate-related disclosure standard is not seen as the only standard that relates to climate. Preparers must be required to look at the accounting standards as well. This needs to be clear in the final standard and in an updated conceptual framework.

For example, regarding offshore carbon credits:

- In our view, the 'financial' obligations, the commitment by the New Zealand government to purchase offshore carbon credits, forms a non-legally binding obligation (what is called constructive obligation). They therefore trigger the 'accounting standards' and should be reported in the Statement of Financial Position, in the *Financial Statements of the New Zealand Government*.
- New Zealand's 'strategy' to reduce emissions and/or purchase excess emissions from overseas would trigger the 'sustainability standards' and therefore should be reported on using the climate-related disclosure standard.

Figure 6: New Zealand's NDC strategy to purchase offshore carbon credits

Source: McGuinness Institute (2024).¹⁵



In our June 2024 Discussion Paper, we considered the existing accounting standards to be sufficient:

Reporting on climate change risks in the financial statements, in both the public and private sector, is a new and emerging area of accounting, but in our view the current standards provide sufficient guidance to report the commitment as a liability and a contingent liability. This is important because we rely on timely information to develop and implement public policy. The discussion on climate risk is likely to be of interest to those exploring how other new and emerging risks should be treated. **Our view is that the time has come for the financial statements of the New Zealand Government to recognise and report this risk, which would then be subject to audit, so that we are better able to focus on finding ways to minimise this obligation and adapt to climate change.** [bold added]¹⁶

However, it is clear that the existing accounting standards were found to be insufficient. See the note in the Independent Audit Report of the Controller and Auditor-General of the *2024 Financial Statements of the New Zealand Government* in Figure 7.

Figure 7: Excerpt from the 2024 Financial Statements of the Government of New Zealand

Source: The Treasury (2024).

Holidays Act 2003 at 30 June 2024 is reasonable.	
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>

2.6 What is a separate reporting entity in the public sector?

One of the key aspects of the *Exposure Draft* is the reliance on what makes a separate reporting entity. Unlike the private sector, the public sector has a range of unusual entity arrangements.

New Zealand has some interesting characteristics:

1. There is currently no obligation on the New Zealand Government to produce an annual report, although there is a commentary added to the front of the financial statements of the New Zealand Government.
2. The *Parliamentary Practice in New Zealand* provides a comprehensive guide to the rules, practices and procedures of our Parliament. Chapter 34: Reporting and Audit, states:

Six broad types of entity are required to report to the House on their financial and operational activities: the Government itself, Government departments (including departmental agencies), Offices of Parliament, Crown entities, State enterprises and mixed-ownership model companies, and some other miscellaneous organisations and companies. **Apart from the miscellaneous organisations**, common financial reporting models apply to each of the types of entities.

The Government is defined as a separate reporting entity in New Zealand law. For this purpose, the ‘Government reporting entity’ is the Sovereign in right of New Zealand, and the legislative, executive and judicial branches of the Government of New Zealand; in a broad sense, central government **(that is, it does not include local government)**. [bold added]¹⁷

Chapter 32 Revenue states:

For the purposes of financial reporting, **the Government reporting entity is a wider concept than the Crown**. The Crown is defined in the Act as consisting of departments and Offices of Parliament. The Government reporting entity includes the Crown thus defined, and also State enterprises and Schedule 5 mixed-ownership model companies, Crown entities, Schedule 4 organisations and Schedule 4A companies, the Reserve Bank, and any other entity that is required to be included by generally accepted accounting practice. [bold added]¹⁸

As noted in bold above, the separate reporting entity of Government does not include local government financial statements. In contrast, we understand the UK does consolidate local government accounts and prepares ‘integrated financial statements that encompass the entire public sector (i.e., including devolved administrations and local government, as well as central government and the Bank of England)’.¹⁹ The UK Government 2023 *Corporate report - Financial statements* states:

These financial statements have been prepared in accordance with **International Financial Reporting Standards (IFRS)** as adapted and interpreted by the HM Treasury 2022-23 Government Financial Reporting Manual (FREM) and as set out in the Accounts Direction to the department pursuant to section 5(2) of the Government Resources and Accounts Act 2000 (GRAA) except as described at 1.2 below. Where the FREM permits a choice of accounting policy, the policy selected is that judged to be most appropriate to the particular circumstances of the core department and its

consolidated entities (the departmental group) for the purpose of giving a true and fair view. The policies adopted by the departmental group are described below; they have been applied consistently to items considered material to the accounts. [bold added]²⁰

This is in contrast to the New Zealand Government’s financial statements, which have adopted IPSAS.

Figure 8: Excerpt from the 2024 Financial Statements of the Government of New Zealand

Source: The Treasury (2024).



This raises a number of issues, some of which relate to the *Exposure Draft*, while others are simply interesting observations. The Institute would like to see:

1. The New Zealand Government produce an annual report.
2. New Zealand adopt the UK approach of at least consolidating the accounts of all local government organisations, embedding this requirement into the Local Government Act 2002.²¹

In terms of implications for the *Exposure Draft*, we note:

1. Defining what meets the definition of a ‘separate public sector reporting entity’ may prove difficult to identify and compare between countries. The final standard may like to consider the implications of these different types of entities and how they differentiate from private sector entities.
2. The New Zealand Government’s financial statements are prepared using IPSAS, hence there is a natural alignment for New Zealand to move to the IPSASB SRS. However, we have already issued climate-related disclosure standards New Zealand Climate Standards (NZ CS) for the private sector and the public sector may like to draw on both standards. Is this level of flexibility allowed for under the *Exposure Draft*?
3. Given the United Kingdom currently prepares its corporate report using the private sector IASB standards (our humble understanding from the statement above), what are the implications? Once again, is their flexibility allowed for under the *Exposure Draft* to enable UK public sector entities to prepare financial statements using IASB and climate-related financial disclosures using IPSASB SRS?

2.7 Recent changes to the New Zealand Climate Standards (NZ CS)

Climate-related disclosures under NZ CS became mandatory for climate-reporting entities in FY24, excluding disclosure and assurance of greenhouse gas (GHG) emissions.²²

In November 2024, the XRB amended NZ CS to:

- extend the adoption provisions for:
 - scope 3 GHG emissions for an additional year (and related extensions to the adoption provisions relating to comparatives for scope 3 GHG emissions and analysis of trends);
 - anticipated financial impacts for an additional year; and
- establish an adoption provision in relation to accounting periods ending before 31 December 2025 for the assurance of scope 3 GHG emissions disclosures, thus giving an additional year before the assurance over scope 3 GHG emissions disclosures is required.²³

The Institute submitted against these amendments and instead recommended that Parliament pass legislation that provides safe harbour provisions for directors on scope 3 GHG emissions until 31 October 2026.

We noted that ‘to delay disclosure requirements (what is in practice a push strategy), will only slow progress, not enable it’.²⁴ Our view is that incomplete information, if it is on time, is better than accurate information at a future point in time. We believe the path to accuracy will come through attempting to produce the information.

In terms of managing the risk for directors, we consider the creation of safe harbour provisions for directors is a feasible solution when reporting is in its infancy.

3.0 DIRECT RESPONSES TO IPSASB INVITATIONS TO COMMENT

Comment 1: Public sector operations and regulatory role (paragraphs 1–4)

This *Exposure Draft* requires a public sector entity to provide disclosures about:

- the climate-related risks and opportunities that are expected to affect its own operations, and
- climate-related public policy programs and their outcomes when an entity has responsibility for those programs and their outcomes (see paragraphs 3 and AG2.7–AG2.8).

Do you agree the proposed approach meets the information needs of primary users (see paragraphs 1–4)? If not, what alternative approach would you propose and why?

McGuinness Institute Response 1

No, we do not agree with the term ‘primary user’.

Definition of ‘climate-related public policy programs and their outcomes’

As explained in the Executive Summary, the Institute recommends that the definition of ‘climate-related public policy programs and their outcomes’ is broadened to encompass all climate-related policy (see our suggested text in the box below).

Our suggestion:

1. The objective of this [draft] Standard is to provide principles for an entity to disclose information in its general purpose financial reports on how climate will impact the public sector entity’s own operations, and how the public sector entity’s **policies** will impact climate, that is useful to users for accountability and decision-making purposes. [bold added]

Public Register of Climate Statements (lodge reports on disclosures)

It is important to not only prepare reports on climate-related disclosures but ensure reports are accessible to the general public. In New Zealand, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 amended the Financial Markets Conduct Act 2013 (the Act) to make it mandatory for some large FMC reporting entities to prepare and ‘lodge’ climate-related disclosures. This led to the creation of the New Zealand Companies Office Climate-related Disclosures Register.²⁵ The decision to create a public register is clearly up to the countries involved; however it could be noted that the Standard suggests preparers should consider public accessibility and where possible, to make their report easy for members of the public to find.

Primary User

We have a concern that if you cannot define who a ‘secondary user’ is, you should technically not refer to a ‘primary user’. Otherwise, this type of language can be seen as privileging one type of user above another – which is clearly not the intention. This may be understandable in the private sector where an investor arguably has preferential rights to information that meets their needs, but it does not seem a good fit for the public sector audience – where the investor in this case is the taxpayer, the ratepayer, or even the aged, the dependent child etc. We would strongly counsel that the term ‘primary user’ should not be adopted in the public sector.

See suggested changes to the above in the detailed Executive Summary (p 5-7).

Comment 2: Own Operations (Appendix A1: Application Guidance – Own Operations)

The *Exposure Draft* primarily aligns disclosure requirements about an entity’s own operations with private sector guidance (IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures), with public sector guidance, including a rebuttable presumption that entities use the GHG Protocol: A Corporate Accounting and Reporting Standard (2004), unless another established method of measuring its greenhouse gas emissions is more appropriate or required by a jurisdictional authority (see paragraph AG1.72).

Do you agree with the proposed approach and guidance? If not, what alternative approach would you propose and why?

McGuinness Institute Response 2

No, we do not agree with the proposed approach. Our view is that the public sector climate-related policies have two very unique purposes (mitigation and adaptation) and users of climate reports have two specific questions they want answered (i.e. to be informed about). The second of these – ‘how the public sector entity’s policies will impact climate’ (see our suggested text in the box below) – is rarely related to the private sector. Hence, although there are similarities with the private sector climate-related disclosures, there are also major differences and these differences need to be recognised in the resulting standard. As noted earlier, we suggest they should rhyme, but not mirror.

Our suggestion:

1. The objective of this [draft] Standard is to provide principles for an entity to disclose information in its general purpose financial reports on how climate will impact **the public sector entity’s own operations**, and how the public sector entity’s policies will impact climate, that is useful to users for accountability and decision-making purposes. [bold added]

See Figure 1 and our suggested changes in the detailed Executive Summary (pp. 6-8) and our observations in Section 2.1.

Comment 3: Scope of Public Policy Programs (paragraph 3 and AG2.4–AG2.6)

This *Exposure Draft* requires disclosures about public policy programs with a primary objective to achieve climate-related outcomes. Do you agree with this approach and the scope of public policy programs included in required disclosures? If not, what alternative approach would you propose and why?

The Exposure Draft includes an Alternative View on the approach to climate-related public policy programs. [italics in page 4 of the Exposure Draft]

McGuinness Institute Response 3

No, we do not agree with the proposed approach, nor the alternative view. Instead we have tweaked the objective and proposed a focus on answering two questions that we consider, if answered, will meet user needs (see our proposal in the box below).

We consider a focus on programs that have a primary objective may lead to key policies being missed. Whether or not a climate-related policy sits alongside other policies within the same document is, in our view, irrelevant to the user (e.g. health policy, education policy etc.). For example, a local council ten-year plan will contain many varied policies, but is also the primary location a user can find the regions climate strategy. The preparer should focus on reporting against the entity's climate-related policy, wherever it is contained.

Given the above, we suggest the focus should be on climate-related *policies* (rather than programs and documents). See box below.

See Figure 1 and our suggested changes in the detailed Executive Summary (pp. 6-8) and our observations in Section 2.1.

Our suggestion:

1. The objective of this [draft] Standard is to provide principles for an entity to disclose information in its general purpose financial reports on how climate will impact the public sector entity's own operations, and how the public sector entity's **policies** will impact climate, that is useful to users for accountability and decision-making purposes. [bold added]

Comment 4: Public Sector-Specific Definitions (paragraph 7)

This *Exposure Draft* provides public sector-specific definitions and related guidance for: (a) Public policy programs; (b) Public policy program outcomes; and (c) Climate-related public policy programs.

Do you agree with the proposed public sector-specific definitions and guidance? If not, what alternative definitions would you propose and why?

McGuinness Institute Response 4

No, we do not agree with the definitions as they stand, but we do agree with the intent and some of the terminology. See the detailed Executive Summary (pp. 6-8) for our suggested changes to the proposed definitions.

A: What makes a principle a principle needs to be defined

We also note the emphasis on principles (see bold below, which is carried forward from the *Exposure Draft*). We have concerns, which we suspect the authors of the *Exposure Draft* found, that sustainability principles (or climate-related disclosure principles) are not in the 2023 *Conceptual Framework*. In fact, we note that the term sustainability is not used in the Framework in a way that aligns well with the *Exposure Draft*. We suspect this is why the focus on providing principles is contained at the front of the *Exposure Draft*.

Our suggestion:

1. The objective of this [draft] Standard is to provide **principles** for an entity to disclose information in its general purpose financial reports on how climate will impact the public sector entity's own operations, and how the public sector entity's policies will impact climate, that is useful to users for accountability and decision-making purposes. [bold added]

Firstly, we consider principles should be added to the definitions and the criteria, in a way that makes it clear what a principle is.

Principles are an important part of strategy and are designed for the small number of situations when a rule will not work; they can deal with ambiguity or communicate the rationale behind difficult choices. Principles allow for flexibility, whereas rules do not. A successful set of principles helps decision-makers make difficult decisions, such as when choices need to be made over trade-offs or competing priorities.

A 2023 *Harvard Business Review* article referred to principles as the beacons for decision-making and that 'principles establish norms that will come to the forefront in crucible moments'. The authors found that strong principles share five critical attributes:

1. Distinctive (unique and specific to the institution)
2. Debatable (can be disagreed with)
3. Transferable (can be applied to multiple problems)
4. Integral (core to what an organisation does)
5. Company-defining (are norms that come to the forefront in crucible moments).²⁶

The article identified three types of principles:

1. Stakeholder principles (how decisions are made when faced with conflicting needs of external parties)

2. Operational principles (how decisions are made when faced with ambiguity over internal operations)
3. Organisational principles (how decisions are made when the organisation faces ambiguity).

B: A list of principles should be included

Importantly, when designing reporting requirements for governments, principles must align with the purpose. The Institute suggests that the list below could be used as the set of principles for this sustainability standard, and in particular, the climate-related disclosure standard.

They align with the qualitative characteristics of information included in general purpose financial reports.

In addition to the principles outlined in Chapter 3 of the *Conceptual Framework*²⁷ (i.e. relevant, faithfully represents what it purports to represent, understandable, timely, comparable, and verifiable, we consider sustainability standards should include other criteria such as:

1. Being forward-looking
2. Taking a precautionary approach (which takes into account uncertainty)
3. Having a public good focus
4. Taking a long-term view.

To conclude, the terminology and guidance matters, hence why we have focused on reworking the definitions in the Executive Summary.

Comment 5: Strategy for Climate-related Public Policy Programs (paragraphs 12 and AG2.24–AG2.31)

This *Exposure Draft* proposes disclosure requirements about an entity’s strategy for climate-related public policy programs which include information that enables primary users to understand the entity’s strategy and decision-making, anticipated challenges to achieving intended outcomes and financial implications of the climate-related public policy program.

Do you agree that the disclosure requirements on strategy for climate-related public policy programs meet the information needs of primary users? If not, what alternative approach would you propose and why?

McGuinness Institute Response 5

The McGuinness Institute believes the *Exposure Draft* should clearly define what an entity’s ‘strategy for climate-related public policy’ entails. It would be worth providing an example so it is clear what this means.

We also note the *Exposure Draft* states that an entity should ‘disclose information about its strategy... including: (a) the entity’s strategy’ (paragraph 12). Arguably the same term is being used differently. This reinforces the importance of clearly defining what strategy means and if it has different meanings in different contexts.

In our view, the term strategy needs to be defined and stress tested. This leads to two questions regarding the proposed definition:

Q1: Are strategy documents defined as climate-related public policy programmes?

If yes, we consider the term ‘strategy’ should be included.

Q2: Do government department strategies (GDSs) on climate meet the definition of a climate-related public policy programme?

If yes, it would be useful to add a note that climate-related public policy programmes include climate strategies published and/or hosted by government departments or ministries. (For background information, see the McGuinness Institute’s 2024 paper on the discussion of climate change in GDSs.)²⁸

The Institute also considers that definitions should be stress tested against existing documents globally. For example, using New Zealand existing documents:

(a) *Would the following meet the definition of a programme?*

Towards a productive, sustainable and inclusive economy: Aotearoa New Zealand’s first emissions reduction plan²⁹

(b) *If yes, would you treat the following as a programme?*

Aotearoa New Zealand’s first emissions reduction plan: Table of actions³⁰

(c) And if yes to both, would you expect preparers to treat these separately or join them together as one document?

See the detailed Executive Summary (pp. 6-8) for our suggested changes to the proposed definitions and how they all fit together.

Strategy

The approach the public sector entity has chosen to take to achieve one or a number of climate-related goals. Strategy includes identifying the climate-related goals (the ends), as well as reporting on past and future initiatives, actions, and/or plans (the means) that the entity has implemented or is planning to implement. Hence, strategy is the means to the end.³¹

Comment 6: Metrics and Targets for Climate-related Public Policy Programs (paragraphs 26–27 and AG2.34–AG2.44)

This *Exposure Draft* proposes to require disclosures about metrics and targets, including (a) the change in greenhouse gas emissions reasonably attributed to climate-related public policy programs and (b) other metrics to measure and monitor performance in relation to climate-related public policy programs.

Do you agree these disclosures meet the information needs of primary users of the report (see paragraph 26)? If not, what alternative approach would you propose and why?

McGuinness Institute Response 6

Firstly, we consider the term needs to be added to the glossary. See our suggestion in the box below.

Metrics and Targets

The metrics and targets used by the public sector entity to assess and manage relevant climate-related risks and opportunities³²

Secondly, it is important to distinguish different types of greenhouse gases. In an upcoming analysis of corporate climate mitigation strategies found in NZSX-listed 2023 annual reports, the Institute identified the following types:

- Internal CO₂ emissions reduction via: energy efficiency; renewable energy; waste reduction and life cycle extension
- External CO₂ emissions reduction via: supply chain; offsetting
- Methane reduction (agriculture-specific).

Carbon removals and emissions avoidance are also possible types.

Your choice is to become more prescriptive or provide some more specific guidance in a standard at a later date. Our thinking is that the latter might be more pragmatic.

Comment 7: Conceptual foundations (paragraphs B2–B15)

This *Exposure Draft* includes conceptual foundations aligned with the IPSASB Conceptual Framework including the definition of materiality (see paragraphs B8–B10) and primary users of public sector general purpose financial reports (see paragraphs B.AG28–B.AG33).

Do you agree that the proposed definition of materiality based on the IPSASB Conceptual Framework meets the information needs of primary users for climate-related disclosures? If not, what alternative approach would you propose and why?

McGuinness Institute Response 7

No. The grey box above refers to both materiality and primary user, hence we discuss both below.

Concerns over the definition of ‘materiality’

Our concern is that the definition may be inferred to relate to financial materiality only.

Figure 9: ‘Materiality’ discussed in the *Conceptual Framework*

Source: IPSASB (2023).³³

Constraints on Information Included in General Purpose Financial Reports

Materiality

- 3.32 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity’s GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

Concerns over the definition of ‘primary user’

Unlike in the private sector, in our view, users cannot be primary. There is no such thing as a primary or secondary user in the public sector – everyone is a user.

Figure 10: ‘Users’ discussed in the *Conceptual Framework*

Source: IPSASB (2023).³⁴

Users of General Purpose Financial Reports

- 2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of services to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.
- 2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives (hereafter referred to as “service recipients and resource providers”, unless identified otherwise).

The *Conceptual Framework* divides users into:

Primary users

- Resource providers and their representatives (those that provide funds – inputs)
- Service recipients and their representatives (those that use up those funds – outputs).

Other user groups

The *Conceptual Framework* does not identify or list any other users by name (see below). It has always been our view that there is no such thing as an ‘other user’ in the public sector. We disagreed with the majority view, as discussed in pages 17-19 of the *Conceptual Framework* (see Figures 9 and 10).

Furthermore, climate impacts everyone and everything – so it does not seem logical to try and apply the concept of primary user in the climate-related standards. It is better to focus on what risks, costs and opportunities might exist for all users.

Put another way, if you cannot identify secondary users, there is no such thing as a primary user.

Figure 11: ‘Other User Groups’ discussed in the *Conceptual Framework*

Source: IPSASB (2023).³⁵

Other User Groups

BC2.12 In developing the Conceptual Framework, the IPSASB considered a wide range of other potential users of GPFRs, including whether special interest groups and their representatives, or those transacting with public sector entities on a commercial or non-commercial basis or on a voluntary or involuntary basis (such as public sector and private sector resource providers) should be identified as separate user groups. The IPSASB is of the view that identifying service recipients and their representatives and resource providers and their representatives as the primary users of GPFRs will respond appropriately to the information needs of subgroups of service recipients and resource providers.

Figure 12: 'Primary User Groups' discussed in the *Conceptual Framework*

Source: IPSASB (2023).³⁶

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the Conceptual Framework.

Primary User Groups

BC2.1 In developing the Conceptual Framework, the IPSASB sought views on whether the Conceptual Framework should identify the primary users of GPFs. Many respondents to the initial Consultation Paper⁴ expressed the view that the Framework should identify the primary users of GPFs, and the IPSASB should focus on the information needs of those primary users in developing IPSASs. The IPSASB was persuaded by these views.

Identifying the Primary User Groups

BC2.2 Conceptual Framework Exposure Draft 1, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity* (the Exposure Draft), identified service recipients and their representatives, and resource providers and their representatives as the primary users of GPFs. It explained that, while the IPSASB will develop IPSASs and RPGs on the contents of GPFs to respond to the information needs of these primary users, GPFs may still be used by others with an interest in financial reporting, and may provide information of use to those other users.

BC2.3 Many respondents to the Exposure Draft expressed support for the identification of service recipients and their representatives and resource providers and their representatives as the primary users of GPFs. However, others were of the view that the public, citizens or legislature should be identified as the primary or most important users of GPFs of public sector entities. They explained that this is

⁴ Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: The Objectives of Financial Reporting; The Scope of Financial Reporting; The Qualitative Characteristics of Information Included in General Purpose Financial Reports; The Reporting Entity*.

because governments are primarily accountable to the citizens or their representatives and, in many jurisdictions, the legislature and individual members of parliament (or similar representative body) acting on behalf of citizens are the main users of GPFs. Some respondents also expressed the view that only resource providers and their representatives should be identified as the primary users of GPFs of public sector entities. They explained that it is unlikely that GPFs would be able to respond to the information needs of all users, and resource providers are likely to have the greatest interest in GPFs. Therefore, identifying resource providers as the primary user group will allow the IPSASB to focus more sharply on the information needs of a single user group. They also noted that GPFs prepared to respond to the information needs of resource providers are likely to also provide information useful to other potential users.

BC2.4 The IPSASB acknowledges that there is merit in many of the proposals made by respondents regarding the identity of the primary users of GPFs of public sector entities, particularly as they apply to governments in many jurisdictions. However, given the objectives of financial reporting by public sector entities, the IPSASB remains of the view that the primary users of GPFs of public sector entities should be identified as service recipients and their representatives and resource providers and their representatives. This is because:

- Governments and other public sector entities are accountable to those that depend on them to use resources to deliver necessary services, as well as to those that provide them with the resources that enable the delivery of those services; and
- GPFs have a significant role in the discharge of that accountability and the provision of information useful to those users for decision-making purposes.

As such, GPFs should be developed to respond to the information needs of service recipients and their representatives and resource providers and their representatives as the primary users. In addition, the Conceptual Framework will apply to governments and a potentially wide range of other public sector entities in many different jurisdictions, and to international governmental organizations. Consequently, it is not clear that identification of other user groups as the primary users of GPFs will be relevant, and operate effectively, for all public sector entities across all jurisdictions.

Comment 8: General requirements (paragraphs B16–B46)

This *Exposure Draft* includes general requirements aligned with private sector guidance (IFRS S1) including the requirements for (a) an entity to include its climate-related disclosures in its general purpose financial reports (see paragraphs B22–B25) and (b) an entity to report its climate-related disclosures at the same time as its related financial statements (see paragraphs B26–B31)

Do you agree that the disclosure requirements proposed in the general requirements are appropriate for public sector entities? If not, what alternative approach would you propose and why?

McGuinness Institute Response 8

We found the first statement ‘(a) an entity to include its climate-related disclosures in its general purpose financial reports’ quite confusing.

We suggest some consideration/direction should be given in the standard as to the name of the report where the climate-related disclosures can be found. Although the *Exposure Draft* does note that ‘The entity’s climate-related disclosures shall cover the same reporting period as the related financial statements’, it does not state the name of the report. You could argue the report title is the Climate-related disclosures report, but this may create confusion. In New Zealand, we refer to the report as a Climate Statement and created a public register (which has worked well). The existing New Zealand Companies Office Climate-related Disclosures Register could be used as an example of how nations could report on climate to the public.

In regard to the second statement, ‘an entity to report its climate-related disclosures at the same time as its related financial statements’, we agree. However, as noted above, we think there should be a clear, or at least recommended name for the statement that contains the climate-related disclosures.

However, the Institute prefers that climate disclosures be contained in one document for consistency across all entities and hence easier accessibility for users. We consider the annual report is the best location and should contain the financial statements, the management commentary and the climate-related financial disclosures report. If this is not possible, the Institute believes entities should be required to provide a link in the annual report to where the climate disclosures can be found.

Comment 9: Transition (paragraphs 30–33)

This *Exposure Draft* proposes to provide transitional relief only in the first year of adoption (see paragraphs 30–33) for disclosures relating to an entity’s own operations and where applicable, relating to climate-related public policy programs and their outcomes.

Do you agree that the proposed transition provisions approach should be applicable to both own operations and climate-related public policy programs? If not, what alternative approach would you propose and why?

McGuinness Institute Response 9

No, we consider that both are urgent; the earlier we start reporting, the more informed users will be and the better decision-making that will arise.

Comment 10: Do you have any other comments on the proposed *Exposure Draft*?

Comment 10: Do you have any other comments on the proposed *Exposure Draft*?

McGuinness Institute Response 10

See the Executive Summary and the comments on Section 2, Section 4 and Section 5.

4.0 RECOMMENDATIONS

Recommendations are grouped under three overarching themes: clarity, comprehensiveness and flexibility.

Clarity – examples, definitions and templates

1. The terms governance, strategy, risk management, metrics and targets and climate-related public policy should be clearly defined in the glossary (see pp. 6-8 of the Executive Summary).
2. The definition of users should be kept open, as the primary user is often hard to determine and sometimes yet to be born. These disclosures will be helpful in some degree to all, as everyone is impacted by climate change (see p 6-8 of the Executive Summary).
3. A template for an ideal presentation of disclosures should be provided alongside examples to explain practical solutions to difficult issues.
4. Reports should include a list of all climate-related public policy documents (see Comment 1, p. 23).

Comprehensiveness

5. The scope of these disclosure requirements should be extended to encompass all public policy with climate-related objectives, not just those with climate as a primary objective (see p. 4 of the Executive Summary).
6. The word ‘programs’ should be removed as it reduces the scope too much and adds unnecessary complexity (see p. 4 of the Executive Summary).

Flexibility

7. Some terminology and concepts will need to be clearly defined, whereas others may be able to remain sufficiently flexible to adapt to the changing global context. Identifying what terminology needs to be fixed, in contrast to what terminology might change in the short term, will be challenging but not impossible.
8. Quantitative financial information should be mandatory (see *Exposure Draft* paragraphs AG1.36 to AG1.38). While the Institute acknowledges that entities may not yet have the necessary skills or expertise to produce a high standard of quantitative information and may have less resources than entities in the private sector, offering a non-time-bound excuse not to provide this information may prevent investment in upskilling people and systems and prevent timely and accurate decision making. Quantitative information is far easier to produce, compare and track, and can be audited.
9. Disclosure of carbon credits already purchased should be mandatory: not just the planned use of them (see *Exposure Draft* paragraph AG1.115). Typically, in accounting, far greater value is placed on what has been done rather than what is being proposed, especially in areas with significant uncertainty and variability such as carbon markets. If disclosures fail to provide information on past and current practices, users will be less well informed, and it may result in slow and costly progress towards long-term climate targets. As shown in the McGuinness 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?*, offshore mitigation will be a necessity for New Zealand to achieve its NDC.³⁷ Not achieving our goals already creates costs that are currently not being taken into account.

5.0 CONCLUSION

We agree with the intent and purpose of the *Exposure Draft*, and much of the detail. In our view, the *Exposure Draft* provides a logical and cohesive starting point.

In our submission we have focused on possible improvements, keeping in mind that the standard is likely to evolve over time. These observations are based on our research, and are briefly discussed in Section 2. A comprehensive list of our publications is in Appendix 1.

To conclude, our three key points are:

1. Remove ‘programs and their outcomes’.

Instead, focus on how the public sector entity’s climate-related *policies* will impact climate. In our view, entities should be required to provide a list of climate-related public policy documents (by date published) but it is not necessary for each document to be analysed/reported against in detail.

2. Remove the test that the ‘primary objective is climate-related’.

Instead, we suggest the focus should be on climate-related *policies*. Whether or not a climate-related policy sits alongside other policies within the same document is, in our view, irrelevant to the user (e.g. health policy or education policy etc). The preparer should focus on reporting against the entity’s climate-related policy, wherever it is contained.

3. Remove ‘primary users’ and refer instead to ‘users’.

As an alternative, we suggest preparers should have the option to list the proposed user by type (e.g. ratepayer, citizen, owner).

Lastly, we suggest some consideration/direction should be given in the standard as to the name of the report where the climate-related disclosures can be found. Although the *Exposure Draft* does note that ‘The entity’s climate-related disclosures shall cover the same reporting period as the related financial statements’, it does not state the name of the report. You could argue the report title is the Climate-related disclosures report, but this may create confusion. In New Zealand, we refer to the report as a Climate Statement and created a public register (which has worked very well). The existing New Zealand Companies Office Climate-related Disclosures Register could be used as a guide.³⁸

As mentioned in the introduction, this is an important standard and it is critical we get it right. The Institute is available to assist the IPSASB in whatever way we can. Please do not hesitate to contact us if you have any questions or points of clarification.

We support the IPSASB as they work towards designing a quality standard, and we would like to thank the IPSASB for the opportunity to provide comment.

APPENDIX 1: MCGUINNESS INSTITUTE PUBLICATIONS RELATING TO CLIMATE

Date	Title	Type of publication	Project
May 2006	<i>Article – The parable of the boiled frog</i>	Articles	ClimateChangeNZ
May 2007	<i>Think Piece 2 – Climate Change: New Zealand's Greenhouse Gas Inventory 1990–2005</i>	Think Pieces	ClimateChangeNZ
February 2008	<i>Slideshow – Project 2058: Helping Build A Sustainable Future</i>	Slideshows	ClimateChangeNZ
March 2008	<i>Press Release – Pursuing sustainable development proving a complex problem</i>	Press Releases	ClimateChangeNZ
December 2009	<i>Project 2058 Report – Background Report 7a – Environmental Goals of Iwi and Hapū: Six case studies</i>	Project 2058 Report	ClimateChangeNZ
April 2010	<i>Submission 2010/01 – Proposed National Environmental Standards</i>	Submissions	ClimateChangeNZ
May 2010	<i>Submission 2010/02 – Wellington City's Draft 2010 Climate Change Action Plan</i>	Submissions	CivicsNZ
September 2010	<i>Submission 2010/05 – Draft New Zealand Energy Strategy and the Draft New Zealand Energy Efficiency and Conservation Strategy</i>	Submissions	ClimateChangeNZ
October 2011	<i>Submission 2011/02 – Environmental Reporting Bill</i>	Submissions	ClimateChangeNZ
January 2012	<i>Submission 2012/01 – Exclusive Economic Zone and Continental Shelf (Environmental Effects) Bill</i>	Submissions	ClimateChangeNZ
June 2012	<i>Submission 2012/05 – Regulations proposed under the Exclusive Economic Zone and Continental Shelf (Environmental Effects Bill)</i>	Submissions	ClimateChangeNZ
April 2013	<i>Submission 2013/02 – Ministry for the Environment Discussion Document: Improving our resource management system</i>	Submissions	ClimateChangeNZ
September 2013	<i>Submission 2013/05 – Activity classifications under the EEZ Act: A discussion document on the regulation of exploratory drilling, discharges of harmful substances and dumping of waste in the Exclusive Economic Zone and continental shelf</i>	Submissions	ClimateChangeNZ
February 2014	<i>Submission 2014/01 – Draft for Consultation: Exclusive Economic Zone and Continental Shelf (Environmental Effects – Non-Notified Activities) Regulations 2013</i>	Submissions	ClimateChangeNZ
March 2014	<i>Submission 2014/04 – Draft for Consultation: Exclusive Economic Zone and Continental Shelf (Environmental Effects – Discharge and Dumping) Regulations 2014</i>	Submissions	ClimateChangeNZ
April 2014	<i>Submission 2014/05 – Environmental Reporting Bill</i>	Submissions	ClimateChangeNZ
June 2015	<i>Submission 2015/02 – Consultation on setting New Zealand's post-2020 climate change target</i>	Submissions	ClimateChangeNZ
May 2016	<i>Submission 2016/04 – The consultation for the New Zealand emissions trading scheme review 2015/16</i>	Submissions	ClimateChangeNZ
March 2018	<i>Working Paper 2018/01 – NZSX-listed Company Tables</i>	Working Papers	CivicsNZ; Climate ChangeNZ
March 2018	<i>Press Release – Extended External Reporting joint statement</i>	Press Releases	CivicsNZ; Climate ChangeNZ
July 2018	<i>Working Paper 2018/03 – Analysis of Climate Change Reporting in the Public and Private Sectors</i>	Working Papers	ClimateChangeNZ
July 2018	<i>Submission 2018/04 – Zero Carbon Bill</i>	Submissions	ClimateChangeNZ
July 2018	<i>Submission 2018/03 – Low-emissions Economy</i>	Submissions	ClimateChangeNZ
August 2018	<i>Slideshow – How New Zealand could improve its reporting frameworks</i>	Slideshows	ClimateChangeNZ
September 2018	<i>Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation</i>	Working Papers	ClimateChangeNZ
October 2018	<i>Think Piece 30 – Package of Climate Change Reporting Recommendations</i>	Think Pieces	ClimateChangeNZ

Date	Title	Type of publication	Project
May 2019	<i>Slideshow – A point of vanishing stability</i>	Slideshows	ClimateChangeNZ
June 2019	<i>Slideshow – Climate Change Reporting Emergency</i>	Slideshows	ClimateChangeNZ
July 2019	<i>Submission 2019/03 – Climate Change Response (Zero Carbon) Amendment Bill</i>	Submissions	ClimateChangeNZ
September 2019	<i>Think Piece 32 – Exploring Ways to Embed Climate Reporting in the Existing Framework</i>	Think Pieces	ClimateChangeNZ
September 2019	<i>Slideshow – Megatrend: Climate disruption – Emerging trend: climate reporting</i>	Slideshows	ClimateChangeNZ
September 2019	<i>Working Paper 2019/06 – Analysis of Climate Change Reporting in the Public and Private Sectors</i>	Working Papers	ClimateChangeNZ
September 2019	<i>Working Paper 2019/05 – Reviewing Voluntary Reporting Frameworks Mentioned in 2017 and 2018 Annual Reports</i>	Working Papers	ClimateChangeNZ
October 2019	<i>Slideshow – The Anthropocene: Global Change and the Earth System</i>	Slideshows	ClimateChangeNZ
October 2019	<i>Slideshow – Revisiting tomorrow: Navigating with foresight</i>	Slideshows	ClimateChangeNZ
October 2019	<i>Slideshow – Foundations of the TCFD framework (Ian Edwards)</i>	Slideshows	ClimateChangeNZ
October 2019	<i>Slideshow – The things every company needs to know: physical, economic, and operational implications of climate change (Tim Naish)</i>	Slideshows	ClimateChangeNZ
October 2019	<i>Slideshow – TCFD Workshops: Practical steps for implementation (Michael Zimonyi)</i>	Slideshows	ClimateChangeNZ
October 2019	<i>Slideshow – TCFD Workshops: Practical steps for implementation (Wendy McGuinness)</i>	Slideshows	ClimateChangeNZ
October 2019	<i>Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study</i>	Discussion Papers	ClimateChangeNZ
October 2019	<i>Workshop Booklet – KiMuaNZ: Exploring climate futures</i>	Workshop Booklet	ClimateChangeNZ
October 2019	<i>Worksheet – TCFD 'Strategy' Exercise</i>	Worksheets/Exercises	ClimateChangeNZ
October 2019	<i>Press Release – TCFD workshops and climate reporting research</i>	Press Releases	ClimateChangeNZ
December 2019	<i>Submission 2019/10 – Climate-related financial disclosures: Understanding your business risks and opportunities related to climate change</i>	Submissions	ClimateChangeNZ
December 2019	<i>Survey Insights: An analysis of the 2019 Task Force on Climate-related Financial Disclosures (TCFD) survey</i>	Surveys	ClimateChangeNZ
January 2020	<i>Submission 2020/01 – Climate Change Response (Emissions Trading Reform) Amendment Bill</i>	Submissions	ClimateChangeNZ
March 2020	<i>Newsletter – McGuinness Institute Special Topic External Reporting: Climate-related Financial Disclosures</i>	Newsletters	ClimateChangeNZ
May 2020	<i>Working Paper 2020/02 – The Role of a Directors' Report: An analysis of the legislative requirements of selected Commonwealth countries</i>	Working Papers	ClimateChangeNZ
May 2020	<i>Legal Opinion – 2020/01 – Obligations on directors to report risk in New Zealand annual reports under the Companies Act 1993</i>	Legal Opinions	ClimateChangeNZ
June 2020	<i>Report 17 – ReportingNZ: Building a Reporting Framework Fit for Purpose</i>	Project 2058 Report	ClimateChangeNZ
June 2020	<i>Working Paper 2020/05 – Reviewing Voluntary Reporting Frameworks mentioned in 2019 Annual Reports</i>	Working Papers	ClimateChangeNZ
June 2020	<i>Working Paper 2020/04 – Analysis of Climate Reporting in the Public and Private Sectors</i>	Working Papers	ClimateChangeNZ
June 2020	<i>Working Paper 2020/03 – Reporting Requirements of Five Types of Entities</i>	Working Papers	ClimateChangeNZ
November 2020	<i>Working Paper 2020/09 – A Forestry-Centric Investigation of the New Zealand Emissions Trading Scheme</i>	Working Papers	ClimateChangeNZ

Date	Title	Type of publication	Project
February 2021	<i>Slideshow – Climate Change Reporting: How to prepare and report climate scenarios</i>	Slideshows	ClimateChangeNZ
March 2021	<i>Submission 2021/02 – He Pou a Rangī Climate Change Commission 2021 Draft Advice for Consultation</i>	Submissions	ClimateChangeNZ
May 2021	<i>Working Paper 2021/02a – Climate change analysis of Government Department Strategies in operation as at 31 December 2020</i>	GDS Index Publications	ClimateChangeNZ
May 2021	<i>Submission 2021/03 – Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill</i>	Submissions	ClimateChangeNZ
May 2021	<i>Worksheet – Emissions Reduction Plan Strategy Mapping Workshop - Worksheet 2: Assumption mapping exercise</i>	Worksheets/Exercises	ClimateChangeNZ
May 2021	<i>Worksheet – Emissions Reduction Plan Strategy Mapping Workshop - Worksheet 1: Strategy mapping exercise</i>	Worksheets/Exercises	ClimateChangeNZ
May 2021	<i>Slideshow – Emissions Reduction Plan Strategy Mapping Workshop presentation</i>	Slideshows	ClimateChangeNZ
June 2021	<i>Working Paper 2021/06 – Reviewing TCFD information in the 2017–2020 Annual Reports of NZSX-listed companies</i>	Working Papers	ClimateChangeNZ
July 2021	<i>Submission 2021/04 – Exposure Draft: Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards</i>	Submissions	ClimateChangeNZ
August 2021	<i>Working Paper 2021/07: Scoping the use of the term ‘climate scenarios’ and other climate-related terms in Aotearoa New Zealand and international literature</i>	Working Papers	ClimateChangeNZ
August 2021	<i>Slideshow – Sixth Assessment Report</i>	Slideshows	ClimateChangeNZ
August 2021	<i>Slideshow – Establishing Aotearoa New Zealand reference climate scenarios</i>	Slideshows	ClimateChangeNZ
August 2021	<i>Discussion Paper 2021/02 – Need for speed: strategy mapping and adaptive management</i>	Discussion Papers	ClimateChangeNZ
August 2021	<i>Submission 2021/05 – Natural and Built Environments Bill Parliamentary paper on the exposure draft</i>	Submissions	ClimateChangeNZ
November 2021	<i>Submission 2021/08 – XRB’s Governance and Risk Management (NZ CS 1)</i>	Submissions	ClimateChangeNZ
November 2021	<i>Working Paper 2021/01 – Timeline of climate change institutions and instruments since 1980</i>	Working Papers	ClimateChangeNZ
November 2021	<i>Submission 2021/07 – Te hau marohi ki anamata – Transitioning to a low-emissions and climate-resilient future</i>	Submissions	ClimateChangeNZ
November 2021	<i>Discussion Paper 2021/04 – An Accounting Dilemma: Does a commitment to purchase offshore carbon credits create a requirement to disclose that obligation in the financial statements of the New Zealand Government?</i>	Discussion Papers	ClimateChangeNZ
November 2021	<i>Working Paper 2021/15 – Looking for a taxonomy for Aotearoa New Zealand’s oceans</i>	Working Papers	ClimateChangeNZ ; OneOceanNZ
November 2021	<i>Infographic – Timeline of Climate-related Policy (Institutions, Legislation, International Commitments, Instruments and Conference of Parties)</i>	Infographics	ClimateChangeNZ
November 2021	<i>Working Paper 2021/14 – The Role of Ocean Water Temperature in Climate Change Policy – A New Zealand King Salmon Case Study</i>	Working Papers	ClimateChangeNZ ; OneOceanNZ
1 December 2021	<i>Slideshow – Climate Disclosure Governance Group: TCFD Workshop</i>	Slideshows	ClimateChangeNZ
December 2021	<i>Working Paper 2021/09 – Analysis of Climate Change Reporting in the Public and Private Sectors</i>	Working Papers	ClimateChangeNZ
March 2022	<i>Submission 2022/03 – Improving Aotearoa New Zealand’s environmental reporting system: Consultation document</i>	Submissions	ClimateChangeNZ
March 2022	<i>Submission 2022/02 – Te Ara Paerangi – Future Pathways Green Paper</i>	Submissions	ClimateChangeNZ ; PublicScienceNZ

Date	Title	Type of publication	Project
April 2022	<i>Submission 2022/04 – Proposed changes to regulations for the New Zealand Emissions Trading Scheme 2022</i>	Submissions	ClimateChangeNZ
May 2022	<i>Working Paper 2021/10 – Analysis of Existing Scenarios in Aotearoa New Zealand</i>	Working Papers	ClimateChangeNZ
May 2022	<i>Working Paper 2021/07 – Scoping the use of the term ‘climate scenarios’ and other climate-related terms in Aotearoa New Zealand and international literature</i>	Working Papers	ClimateChangeNZ
May 2022	<i>Submission 2022/05 – Strategy and Metrics and Targets Consultation Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)</i>	Submissions	ClimateChangeNZ
June 2022	<i>Submission 2022/07 – Te mahere urutaunga ā motu (tuhinga hūkihūki): Draft National Adaptation Plan and the Adapt and Thrive - Managed Retreat document</i>	Submissions	ClimateChangeNZ
August 2022	<i>Submission 2022/09– Reclassifying stewardship land on the West Coast</i>	Submissions	ClimateChangeNZ
September 2022	<i>Working Paper 2022/14 – Reviewing TCFD information in 2017–2021 reports of NZSX-listed companies</i>	Working Papers	ClimateChangeNZ
September 2022	<i>Slideshow – West Coast Land Reclassification</i>	Slideshows	ClimateChangeNZ
September 2022	<i>Submission 2022/10 – Aotearoa New Zealand Climate Standards Climate-related Disclosures: Exposure Drafts</i>	Submissions	ClimateChangeNZ
October 2022	<i>Working Paper 2022/15 – Reviewing Voluntary Reporting Frameworks Mentioned in 2018–2021 Annual Reports from NZSX-listed companies</i>	Working Papers	ClimateChangeNZ ; CivicsNZ
November 2022	<i>Submission 2022/13 – Pricing agricultural emissions: Consultation document</i>	Submissions	ClimateChangeNZ
November 2022	<i>Working Paper 2022/07 – Analysis of Climate Change in Government Department Strategies as at 31 December 2021</i>	GDS Index Publications	ClimateChangeNZ
March 2023	<i>Submission 2023/02 – Market governance of the New Zealand Emissions Trading Scheme Discussion document</i>	Submissions	ClimateChangeNZ
March 2023	<i>Submission 2023/01 – Natural and Built Environment (NBE) Bill Spatial Planning (SP) Bill Climate Change Adaptation Bill</i>	Submissions	ClimateChangeNZ
May 2023	<i>Discussion Paper 2023/02 – Establishing national climate-related reference scenarios</i>	Discussion Papers	ClimateChangeNZ
September 2023	<i>Press Release – NZKS Blue Endeavour consent now includes a climate change review condition</i>	Press Releases	ClimateChangeNZ OneOceanNZ
November 2023	<i>Working Paper 2023/02 – Comparing climate-related strategies of five selected Commonwealth countries: Australia, Canada, New Zealand, Singapore and the United Kingdom</i>	Working Papers	ClimateChangeNZ
February 2024	<i>Working Paper 2024/01 – Timeline of climate-related policy (institutions, legislation, international commitments, instruments and Conference of Parties)</i>	Working Papers	ClimateChangeNZ
March 2024	<i>Slideshow – Learning lessons from early adopters of Aotearoa New Zealand Climate Standards (NZ CSs)</i>	Slideshows	ClimateChangeNZ
April 2024	<i>Working Paper 2023/04 – Analysing TCFD Information Disclosed in 2017–2022 Annual Reports of NZSX-listed Companies</i>	Working Papers	ClimateChangeNZ
April 2024	<i>Working Paper 2024/04 – Timeline of international and domestic climate-related adaptation and mitigation strategies</i>	Working Papers	ClimateChangeNZ
May 2024	<i>Working Paper 2024/03 – New Zealand’s Climate Strategy Mapped as at December 2023</i>	Working Papers	ClimateChangeNZ
June 2024	<i>Press Release – Exposing ‘risks hiding in plain sight’ – accounting for offshore carbon credits</i>	Press Releases	ClimateChangeNZ
June 2024	<i>Discussion Paper 2024/01 – Risks hiding in plain sight: Does a commitment under the Paris Agreement to purchase offshore</i>	Discussion Papers	ClimateChangeNZ

Date	Title	Type of publication	Project
	<i>carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?</i>		
June 2024	<i>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?</i>	Discussion Papers	ClimateChangeNZ
September 2024	<i>Working Paper 2024/07 – Collating climate statements contained in 2023 annual reports of NZSX-listed companies</i>	Working Papers	ClimateChangeNZ
October 2024	<i>Addendum – 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?</i>	Discussion Papers	ClimateChangeNZ
October 2024	<i>Submission 2024/06 – XRB: Proposed 2024 Amendments to Climate and Assurance Standards</i>	Submissions	ClimateChangeNZ
October 2024	<i>Working Paper 2024/11 – Illustration of the Government’s financial reporting system</i>	Working Papers	ClimateChangeNZ
October 2024	<i>Addendum to Discussion Paper 2024/01</i>	Discussion Papers	ClimateChangeNZ
December 2024	<i>Working Paper 2024/09 – Analysis of Climate Change in Government Department Strategies as at 31 December 2023</i>	GDS Index Publications	GDSIndexNZ

APPENDIX 2: EXCERPT FROM THE 2024 FINANCIAL STATEMENTS OF THE GOVERNMENT OF NEW ZEALAND

Commentary on the Financial Statements

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 CO₂-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 ₂ emissions cut to net zero around 2050	1.6 °C	USD 303.67
SSP1-2.6	Low GHG emissions, CO ₂ emissions cut to net zero around 2075	1.7 °C	USD 32.72
SSP2-4.5	Intermediate GHG emissions, CO ₂ 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).

ENDNOTES

- 1 Task Force on Climate-related Financial Disclosures (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. [online] pp.v, 62. Available at: <https://www.fsb-tcfd.org/publications> [Accessed 27 Feb. 2025].
- 2 Task Force on Climate-related Financial Disclosures (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. [online] pp.v, 63-64. Available at: <https://www.fsb-tcfd.org/publications> [Accessed 27 Feb. 2025].
- 3 Task Force on Climate-related Financial Disclosures (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. [online] p.v. Available at: <https://www.fsb-tcfd.org/publications> [Accessed 27 Feb. 2025].
- 4 Task Force on Climate-related Financial Disclosures (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. [online] p.v. Available at: <https://www.fsb-tcfd.org/publications> [Accessed 27 Feb. 2025].
- 5 Poynting, M., Rivault, E. and Dale, B. (2025). ‘World’s hottest year: 2024 first to pass 1.5C warming limit.’ *BBC*. [online] 10 Jan. Available at: <https://www.bbc.com/news/articles/cd7575x8yq5o> [Accessed 29 Jan. 2025].
- 6 Office of the Auditor-General. *Accounting for climate change* (2024). Available at: <https://oag.parliament.nz/2024/climate-change-accounting> [Accessed 29 Feb. 2025].
- 7 McGuinness Institute (2024). *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?* [online] p.7. Available at: <https://www.mcguinnessinstitute.org/publications/discussion-papers/> [Accessed 17 Mar. 2025].
- 8 McGuinness Institute (2019). *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study* [online], p.88. Available at: <https://www.mcguinnessinstitute.org/publications/discussion-papers> [Accessed 12 Feb. 2025].
- 9 McGuinness Institute (2012). *Project 2058: Report 9 – Science Embraced: Government-funded Science under the Microscope*. [online] p.3. Available at: <https://www.mcguinnessinstitute.org/publications/project-2058-reports> [Accessed 13 Jan. 2025].
- 10 McGuinness Institute (2024). *GDS Index - McGuinness Institute*. [online] Available at: <https://www.mcguinnessinstitute.org/research-projects/gds-index> [Accessed 29 Jan. 2025].
- 11 McGuinness Institute (2024). *Working Paper 2024/09 – Analysis of Climate Change in Government Department Strategies as at 31 December 2023*. [online] pp. 19, 25, 26, 31. Available at: <https://www.mcguinnessinstitute.org/publications/working-papers> [Accessed 27 Feb. 2025].
- 12 McGuinness Institute. (2024). *Working Paper 2024/09 – Analysis of Climate Change in Government Department Strategies as at 31 December 2023*. [online], p.20. Available at: <https://www.mcguinnessinstitute.org/publications/working-papers> [Accessed 14 Feb. 2025].
- 13 Ministry for the Environment (2024). *New Zealand’s first Biennial Transparency Report under the Paris Agreement*. [online] pp.20-21. Available at: <https://environment.govt.nz/publications/new-zealands-first-biennial-transparency-report-under-the-paris-agreement> [Accessed 11 Feb. 2025].
- 14 McGuinness Institute (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?* [online] Available at: <https://www.mcguinnessinstitute.org/publications/discussion-papers> [Accessed 12 Feb. 2025].
Helpful to note is that New Zealand’s 2050 emissions target is a split-gases target: all greenhouse gas emissions (other than biogenic methane) to reach net zero by 2050, and all biogenic methane emissions to reach a 24–47% reduction by 2050 including a 10% reduction by 2030 (when compared with 2017 levels). *Climate Change Response Act 2002*.s 5Q [online] Available at: <https://www.legislation.govt.nz/act/public/2002/0040/latest/LMS282014.html> [Accessed 17 Mar. 2025].
- 15 McGuinness Institute (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?* [online] p.8. Available at: <https://www.mcguinnessinstitute.org/publications/discussion-papers> [Accessed 12 Feb. 2025].
- 16 McGuinness Institute (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?* [online] p.7. Available at: <https://www.mcguinnessinstitute.org/publications/discussion-papers> [Accessed 12 Feb. 2025].

- 17 Harris, M. and Wilson, D. eds. (2017). *Parliamentary Practice in New Zealand*. [online] Auckland: Oratia Books, pp. 569-570. Available at <https://www.parliament.nz/en/visit-and-learn/how-parliament-works/parliamentary-practice-in-new-zealand-2017-by-chapter> [Accessed 27 Feb. 2025].
- 18 Harris, M. and Wilson, D. eds. (2017). *Parliamentary Practice in New Zealand*. [online] Auckland: Oratia Books, p.536. Available at <https://www.parliament.nz/en/visit-and-learn/how-parliament-works/parliamentary-practice-in-new-zealand-2017-by-chapter> [Accessed 27 Feb. 2025].
- 19 Campbell, R. and Wheatcroft, M. (2017). *Managing the Public Balance Sheet*. [online] Institute of Chartered Accountants in England and Wales (ICAEW), p.2. Available at: <https://www.icaew.com/about-icaew/regulation-and-the-public-interest/policy/better-government-series/managing-the-public-balance-sheet> [Accessed 1 Mar. 2025].
- 20 UK Government (2023). *Corporate report - Financial statements*. [online] Available at: <https://www.gov.uk/government/publications/beis-annual-report-and-accounts-2022-to-2023/financial-statements#consolidated-statement-of-financial-position> [Accessed 27 Feb. 2025].
- 21 New Zealand Government (2002). *Local Government Act 2002 No 84, Public Act 124 Interpretation – New Zealand Legislation*. [online] Available at: <https://www.legislation.govt.nz/act/public/2002/0084/latest/DLM172912.html#DLM172912> [Accessed 27 Feb. 2025].
- 22 External Reporting Board (XRB) (2022). *Aotearoa New Zealand Climate Standard 1 Climate-related Disclosures (NZ CS 1)*. [online] p. 15. Available at: <https://www.xrb.govt.nz/standards/climate-related-disclosures/aotearoa-new-zealand-climate-standards/aotearoa-new-zealand-climate-standard-1> [Accessed 27 Feb. 2025].
- 23 External Reporting Board (XRB) (2024). *Amendments to Adoption of Aotearoa New Zealand Climate Standards 2024*. [online] p.3. Available at: <https://www.xrb.govt.nz/standards/climate-related-disclosures/aotearoa-new-zealand-climate-standards/aotearoa-new-zealand-climate-standard-2> [Accessed 29 Jan. 2025].
- 24 McGuinness Institute (2024). *Submission XRB: Proposed 2024 Amendments to Climate and Assurance Standards*. [online], p.5. Available at: <https://www.mcguinnessinstitute.org/publications/submissions> [Accessed 29 Jan. 2025].
- 25 New Zealand Companies Office (2024). *Climate-related Disclosures Register*. [online] New Zealand Government. Available at: <https://www.companiesoffice.govt.nz/all-registers/climate-related-disclosures> [Accessed 11 Feb. 2025].
- 26 Fuchs, J., Sandell, S. and Shanker, V. (2023). *It's Time to Define Your Company's Principles*. [online] Harvard Business Review November-December 2023. Available at: <https://hbr.org/2023/11/its-time-to-define-your-companys-principles> [Accessed 13 Jan. 2025].
- 27 International Public Sector Accounting Standards Board (IPSASB) (2023). *The conceptual framework for general purpose financial reporting by public sector entities*. [online], pp.23–27. Available at: <https://www.ipsasb.org/publications/conceptual-framework-general-purpose-financial-reporting-public-sector-entities-2023> [Accessed 28 Feb. 2025].
- 28 McGuinness Institute (2024). *Working Paper 2024/09 – Analysis of Climate Change in Government Department Strategies as at 31 December 2023*. [online]. Available at: <https://www.mcguinnessinstitute.org/publications/working-papers> [Accessed 27 Feb. 2025].
- 29 Ministry for the Environment (MfE) (2022). *Te hau mārohi ki anamata Towards a productive, sustainable and inclusive economy*. [online] Available at: <https://environment.govt.nz/publications/aotearoa-new-zealands-first-emissions-reduction-plan> [Accessed 27 Feb. 2025].
- 30 Ministry for the Environment (MfE) (2022). *Aotearoa New Zealand's first emissions reduction plan: Table of actions. Wellington: Ministry for the Environment*. [online] Available at: <https://environment.govt.nz/publications/emissions-reduction-plan-table-of-actions> [Accessed 27 Feb. 2025].
- 31 Task Force on Climate-related Financial Disclosures (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. [online] pp.v, 63-64. Available at: <https://www.fsb-tcfd.org/publications> [Accessed 27 Feb. 2025].
- 32 Task Force on Climate-related Financial Disclosures (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. [online] p.v. Available at: <https://www.fsb-tcfd.org/publications> [Accessed 27 Feb. 2025].
- 33 International Public Sector Accounting Standards Board (IPSASB) (2023). *The conceptual framework for general purpose financial reporting by public sector entities*. [online], p.28. Available at: <https://www.ipsasb.org/publications/conceptual-framework-general-purpose-financial-reporting-public-sector-entities-2023> [Accessed 28 Feb. 2025].
- 34 International Public Sector Accounting Standards Board (IPSASB) (2023). *The conceptual framework for general purpose financial reporting by public sector entities*. [online], p.12. Available at: <https://www.ipsasb.org/publications/conceptual-framework-general-purpose-financial-reporting-public-sector-entities-2023> [Accessed 28 Feb. 2025].

-
- 35 International Public Sector Accounting Standards Board (IPSASB) (2023). *The conceptual framework for general purpose financial reporting by public sector entities*. [online], p.19. Available at: <https://www.ipsasb.org/publications/conceptual-framework-general-purpose-financial-reporting-public-sector-entities-2023> [Accessed 28 Feb. 2025].
- 36 International Public Sector Accounting Standards Board (IPSASB) (2023). *The conceptual framework for general purpose financial reporting by public sector entities*. [online], pp.17-18. Available at: <https://www.ipsasb.org/publications/conceptual-framework-general-purpose-financial-reporting-public-sector-entities-2023> [Accessed 28 Feb. 2025].
- 37 McGuinness Institute (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?* [online] Available at: <https://www.mcguinnessinstitute.org/publications/discussion-papers> [Accessed 12 Feb. 2025].
- 38 New Zealand Companies Office (2024). *Climate-related Disclosures Register*. [online] New Zealand Government. Available at: <https://www.companiesoffice.govt.nz/all-registers/climate-related-disclosures> [Accessed 11 Feb. 2025].