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Climate-related Disclosures: Insights from our reviews 2025

The Financial Markets Authority - Te Mana Tātai Hokohoko (FMA) is responsible for the independent monitoring and enforcement of the climate-related disclosures regime. The purpose of this report is to provide useful feedback for climate reporting entities to improve the disclosures in their climate statements.

This report is primarily intended for climate reporting entities, their directors and other interested parties, such as assurance practitioners and advisers. While not directly intended for primary users of climate statements, they may also find this report useful.

FMA
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Contents

About our reviews

Purpose and scope of reviews

The purpose and scope of our reviews was to assess compliance with the requirements of the CRD regime, identify areas for improvement, and provide useful feedback to climate reporting entities (CREs) to enhance the quality of future disclosures. This report is an extension of our first Insights Report and should be read in conjunction with that document.

CRD records

We did not request or assess underlying climate-related disclosures (CRD) records for any CRE. This means the insights and observations raised in this report are limited to what CREs disclosed in their climate statements. We do not comment on whether the climate statements reviewed accurately reflect what CREs are doing in practice.

Number of reviews

Overall, our key insights in this report relate to disclosure reviews encompassing the reporting periods ended 31 December 2023 to 30 November 2024, which includes:

- 70 climate statements prepared for reporting periods ended 31 December 2023, 31 January 2024 and 31 March 2024 included in our first Insights Report (issued in December 2024); and
- a further 39 climate statements relating to reporting periods ending between 30 April and 30 November 2024 since the first Insights Report was issued.

Insights

From our recent reviews[1] we had broadly the same insights that were raised in our 2024 Insights Report. We encourage all CREs to consider those that are relevant to them, to improve their disclosures for their next reporting period.

There was a wide spectrum of quality of climate statements, from high quality with minimal review findings to those where we found multiple areas for improvement. Some examples from the first year of reviews where areas of disclosure contributed to higher-quality reporting included:

- presenting information in an understandable format to help primary users understand complex areas or concepts, e.g. through use of tables, titles or sections;
- providing clear organisational structures to help describe where both governance- and management-level positions and committees lie;
- clearly describing whether and how processes for identifying, assessing and managing climate-related risks are integrated into the overall risk management process;
- effective use of appendices, especially for additional information not required by the Climate Standards (e.g. case studies, detailed sector analysis, detailed physical hazard or risk analysis, and other wider sustainability-related information);
- transparent disclosures related to greenhouse gas emissions targets, including the scope of the gross greenhouse gas emissions covered, the extent to which the target relies on offsets (e.g. %), time period covered, and other relevant contextual information.

Climate-related risks and opportunities disclosures

We have set out a new focus area on the effectiveness of CREs' **identification** and **assessment** processes for climate-related risks and opportunities (CRROs). As **Diagram 1** on page 6 explains, these are central to the CRD reporting framework and a vital part of ensuring value is obtained from the CRD regime. We expect CREs to evaluate the effectiveness of these processes to ensure they result in disclosure of material information.

From our monitoring reviews we found disclosures that may indicate insufficient or incomplete identification and/or assessment of climate-related risks and opportunities.

We have set out our insights below to help CREs identify areas for improvement that could be relevant to them. These include:

- disclosures that were not specific:
  - to the **risk**, with no contextual information to describe factors such as severity, frequency, exposure and vulnerability;

[1] Relating to reporting periods ending between 30 June and 30 November 2024.

- to the **opportunity**, instead describing sector- or economy-level driving forces such as changes in the legal environment or consumer preferences, with no contextual information to describe more specific attributes of the opportunity;
- to the **entity**, instead appearing to relate to sectors or industry but not explaining why they were relevant to the entity and its operations, value creation, strategy, supply chain or assets.

- disclosures that **omitted** or **obscured** material information, including:
  - disclosing a large number of climate-related risks and opportunities that may have included immaterial risks, thereby obscuring or excluding those that were material;
  - disclosures that focused on risks that did not appear relevant to the industry or type of entity;
  - omitting the relevant time horizons (i.e. short, medium or long term) for the CRROs that had been identified;
  - information being provided about the criteria used for a risk and opportunity assessment (e.g. ranking or colour codes) without including any further details for primary users to understand this assessment;
  - disclosing a current impact (e.g. an impact from a severe weather event like Cyclone Gabrielle) that did not have an associated climate-related risk identified (e.g. risk of a cyclone impacting assets) or an explanation as to why it was not considered a risk;
  - identification of physical risks using only climate models' averages, instead of multiple potential outcomes. Using averages could minimise material risks (e.g. the range of potential outcomes of a scenario can range between more rainfall and less rainfall; if the average is slightly more rainfall, then the risk of chronic drought can be missed).

Further observations to improve climate-related risk and opportunity identification and assessment

- CREs should consider which risk and opportunity identification and assessment tools, methods and models[2] are most relevant and effective for them.
  - We note that for first-year climate statements, CREs generally made a good effort to undertake scenario analysis[3] (which was a new tool for most), but good practice is still developing.
  - CREs should consider whether their scenario analysis process sufficiently captures risks and opportunities or whether further data or analysis may also be necessary.
- We encourage CREs to understand the data and limitations of any tools, methods and models used, including whether they are fit for purpose.
  - CREs can refer to our guidance on the use of third-party providers in respect of due diligence and record keeping when procuring services from third-party providers.

[2] An overview of those supplementary tools and processes is available on p.59 of the XRB's Climate-related Disclosures Guidance for All Sectors (2023) | xrb.govt.nz
[3] Refer to the scenario analysis insights on page 19 of our Insights Report.

Other observations

The Climate Standards require disclosure about the impacts of 'climate' on the entity, rather than 'climate change'

We identified through our engagement with CREs that there could be a misunderstanding related to the Climate Standards referring to 'climate change' rather than 'climate'. 'Climate' includes 'climate change', especially as many disclosures are forward-looking and consider different time horizons. The XRB has clarified in its staff guidance[4] that CREs are not required to attempt to calculate what portion of the impact of a climate-related event resulted from 'climate change' above and beyond 'a business-as-usual event', nor undertake attribution analysis to compare a climate-related event and its impacts with a world where climate change does not exist.

However, CREs could do so voluntarily, which may provide useful information. Attribution analysis can provide useful indicators to monitor how climate-related risks are evolving over time, but this is an input for the entity, not a required output for disclosures.

Information included by cross reference becomes part of the climate statement

This means the information included by cross reference needs to comply with the requirements of the Climate Standards. It also means that the *governance body* that authorises the climate statements takes the same responsibility for the information included by cross reference as it does for the information included directly[5].

Some CREs included links to other documents (e.g. the global group's sustainability report, sector-level scenario analysis, or GHG inventory report) in their climate statements. In some cases, it was not clear from the disclosures whether these links were intended to direct primary users to:

- material information required by the Climate Standards, i.e. including disclosures by cross reference; or
- additional background or further information that is not material in relation to the disclosures required by the Climate Standards.

In addition, where material information required to be disclosed by the Climate Standards is incorporated by cross reference, CREs must:

- ensure it is clear for primary users what information is included in their climate statement. Where climate-related disclosures are provided within another document, NZ CS 3 requires a table within that other document clearly identifying the location of the disclosures required by the Climate Standards[6];
- comply with the cross-referencing requirements in paragraphs 17 – 19 of NZ CS 3; and
- deliver that cross-referenced information to the CRD Register for lodgement along with the document(s) containing the rest of their disclosures.

If links to other documents are included in climate statements, we encourage CREs to provide clarity about what primary users can understand from that information and whether it is material in relation to the disclosures required by the Climate Standards.

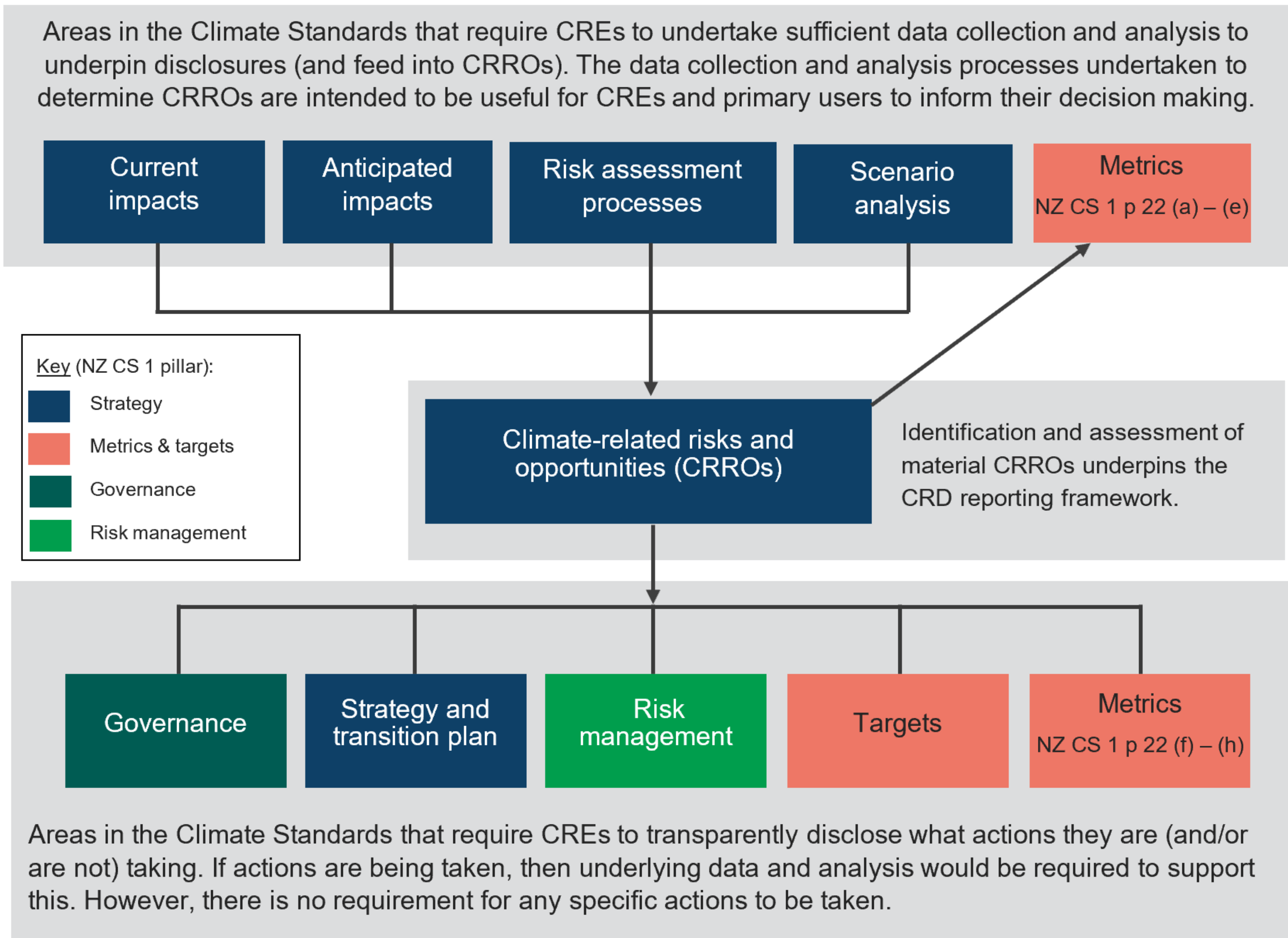
[4] Page 29 XRB All Staff Guidance | xrb.govt.nz
[5] NZ CS 3 paragraph 19.
[6] NZ CS 3 paragraph 14 and 15.

Addressing common misconceptions

The CRD regime requires mandatory disclosure, not mandatory action

The CRD regime is a disclosure regime and does not mandate any business or strategic actions that must be taken. Instead, some disclosures require CREs to undertake sufficient data collection and analysis, and others require disclosure of what a CRE is or is not doing. Diagram 1 below illustrates this for each pillar of the Climate Standards, including some processes that feed into those pillars.

Diagram 1: Underlying processes required in the Climate Standards that support transparent disclosure



There are some nuances within the risk management, metrics and targets pillars:

Risk management

- Given CREs are required to disclose material climate-related risks, we would expect to see a description of sufficient processes to *identify* and *assess* risks in the risk management pillar[7]. There is no *requirement to take action* to manage climate-related risks and opportunities, but there is a requirement to disclose this action or inaction.

Metrics

- Some metrics require data collection and analysis due to NZ CS 1 p 22 (a) – (e) and other metrics require disclosure of what a CRE does or doesn't do based on paragraphs 22 (f) – (h). If CREs do have processes that would answer the requirements of disclosures 22 (f) – (h) (such as capital deployment), then they would be required to have underlying data and analysis to support this.
- While CREs are required to undertake sufficient data collection and analysis to calculate GHG emissions and GHG emissions intensity, there is no requirement to reduce these emissions.

CREs can decide how to respond to their data, analysis and resulting risk, opportunity, impact and scenario analysis disclosures. The regime does not mandate actions, such as improving climate resilience, reducing GHG emissions, pursuing climate-related opportunities, or governing or managing climate-related risks in a certain manner (if at all).

The information disclosed in climate statements should enable users to make their own assessment of how CREs are considering climate-related risks and opportunities, so they can then make informed decisions based on these assessments.

Our monitoring activities help ensure the information in climate statements complies with the requirements of the Climate Standards and is transparent. Our regulatory oversight does not include requiring CREs to make strategic decisions about how to act on climate change or directing the allocation of capital (or stating a preference for where it should be allocated). These are strategic decisions made by CREs themselves.

Example: transition planning

Misconception 1: Having a transition plan is mandatory

The Climate Standards require CREs to include information when describing how they will position themselves as the economy transitions towards a low-emissions, climate-resilient future state[8]. The Climate Standards do not mandate that CREs must have a transition plan, or set out any specific approach or process for transition planning. It is possible for a CRE to disclose that there is no change to how they will position themselves and therefore they do not have any mitigation or adaptation targets.

When reviewing transition planning disclosures, we will consider whether there have been reasonable efforts to disclose sufficient information for each requirement of paragraphs 16(a), (b) and (c) of NZ CS 1.

For example, a CRE should disclose:

[7] Refer to NZ CS 1 paragraphs 18 (a) and 19 (a).
[8] NZ CS 1 paragraph 11(e), and paragraph 16 (a), (b) and (c).

- whether it has (or does not have) any *transition plan* aspects of its strategy, including if its business model and strategy might (or might not) change to address its climate-related risks and opportunities[9]; and
- material information regarding the extent to which transition plan aspects of its strategy (if any) are aligned with its internal capital deployment and funding decision-making processes[10].

Misconception 2: A transition plan is required to be a formalised, standalone and/or comprehensive document

The definition of 'transition plan' set out in NZ CS 1 is "*an aspect of an entity's overall strategy that describes an entity's* ***targets****, including any interim targets, and* ***actions*** *for its transition towards a low-emissions, climate-resilient future*".

CREs can meet the definition of a transition plan in the Climate Standards without having a formalised transition plan document. Many CREs already have some or all of the key elements of a transition plan because they have committed to and implemented mitigation and/or adaptation targets and actions, therefore meeting the defined requirements.

The nature of transition planning disclosures means they will vary between CREs, as they depend on individual strategic responses.

Value of the transition planning process

Although the Climate Standards only require disclosure of what a CRE is or is not doing, the value of the transition planning process is the development of long-term strategic resilience. The process of formulating and disclosing this information helps:

- enable CREs to build resilience to critical uncertainties;
- inform primary users about the actions CREs will take to achieve their mitigation and adaptation targets;
- provide credibility to the claims and commitments CREs have made; and
- mitigate the risk of legal issues such as greenwashing.

[9] Refer NZ CS 1 paragraph 16 (b)
[10] Refer NZ CS 1 paragraph 16 (c)

Future monitoring activities

We have set out a summary of our new focus areas for our second year of monitoring under the climate-related disclosures regime. Our objective is to enhance the quality of climate-related disclosures; we have therefore used findings from reviews of the first reporting year of climate statements to inform these future focus areas. Note that these focus areas, although largely similar, should be read in conjunction with those in the first insights report issued in December 2024.

Focus areas

In our second year of monitoring, we will continue to take a broadly educative and constructive approach that focuses on supporting and encouraging compliance with the Climate Standards. In some cases, we may request underlying records to further understand any significant matters we identify.

We will continue our disclosure reviews of climate statements to consider whether CREs have substantially complied with the Climate Standards. We will focus our reviews on four areas, assessing whether:

1. CREs have considered and addressed areas for improvement raised in our 2024 insights report and/or any individual feedback provided.
   - Our educative and constructive approach in the early years of the CRD regime means we expect CREs to improve their disclosures over time, including addressing any relevant feedback we have provided. CREs should also enhance their disclosures through developing expertise and underlying processes, as well as improving the quality of their data and any supporting analysis.
2. CREs have disclosed all material information to explain their climate-related risks and opportunities.[11]
   - The process of CREs identifying and assessing climate-related risks and opportunities appropriately is a fundamental step to ensure the CRD regime provides value. This is because identification and understanding of climate-related risks and opportunities enables:
     - management and governance to:
       - appropriately assess which climate-related risks and opportunities are material;
       - evaluate how to respond to climate-related risks and opportunities through actions to mitigate or manage risk, capitalise on opportunities, or initiate strategic change; and
       - set appropriate targets to address material climate-related risks and opportunities, and then measure and monitor progress of metrics against these targets going forward.
     - appropriate disclosure in climate statements of material climate-related risks and opportunities, and the associated strategic response (if any), so primary users can make more informed capital allocation decisions.

   Refer to **Diagram 1** on page 6 for a visual representation of how the identification and assessment of risks underpins the Climate Standards.

[11] Refer to NZ CS 1 paragraph 11 (c) and 14.

3. CREs have made reasonable efforts to comply with the disclosure requirements no longer eligible for adoption relief in year 2.
   - We will assess whether reasonable efforts have been made to comply with the requirements to disclose current financial impacts and transition plan aspects of their strategy.[12]
   - Refer to pages 7-8 for further information on common transition planning disclosure misconceptions.
4. CREs have complied with the requirement to obtain assurance over their GHG emissions disclosures.
   - We will review the independent assurance report to consider whether:
     - it complies with NZ SAE 1 Assurance Engagements over GHG Emissions Disclosures, including the independence requirements;
     - the engagement covers the appropriate scope required under the Climate Standards[13];
     - the information that has been assured in the climate statements is clear to primary users, including when cross references have been applied (e.g. GHG inventory report); and
     - it has been lodged on the CRD Register within four months of balance date, along with the climate statements.

   We will also assess whether there is an independent assurance report provided to primary users in cases where there has been disclosure of additional voluntary assurance obtained over further areas in climate statements (e.g. other metrics and targets).

We will provide more verbal feedback

We plan to communicate findings from our second year of disclosure reviews in a monitoring report by mid-2026.

For the remainder of 2025, we expect to provide feedback verbally through individual engagement, especially for CREs with December and March year-ends, to ensure they can make changes before their third year of reporting. For more significant matters, we will continue to issue feedback letters.

Updated future monitoring

Third year of monitoring – reporting periods starting on or after 1 January 2025

We will continue to carry out disclosure reviews of climate statements and start reviewing underlying CRD records if we identify significant issues. This will only be related to requirements in the Climate Standards that have been in place since CREs' first reporting year, e.g. we could request a climate risk assessment to support climate-related risk and opportunity disclosures.

Fourth year of monitoring – reporting periods starting on or after 1 January 2026

We aim to settle into a 'steady state'. We expect to carry out proactive risk-based sampling and more detailed review procedures, including examining the underlying records that support climate statements.

[12] Adoption provision 1: Current financial impacts and Adoption provision 3: Transition planning in NZ CS 2 are not available for CREs in their second reporting period.
[13] NZ CS 1 paragraphs 25 and 26.

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