

Submission on discussion document: Adjustments to the climate-related disclosures regime

Your name and organisation

Name	S9(2)(a)
Date	14/02/2025
Organisation (if applicable)	Chartered Accountants Australia and New Zealand
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Responses to discussion document questions

Please enter your responses in the space provided below each question.

Chapter 2: Reporting Thresholds	
1	Do you have any information about the cost of reporting for listed issuers?
	We have heard feedback that the implementation cost has been substantial, but we do not have specific information or data on such costs.
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand?
	We do not consider the listed issuer thresholds for climate reporting to be a barrier to listing in New Zealand. We also note that not all listed entities are CREs.
	Page 11 of the discussion document notes the risk of regulatory arbitrage between New Zealand and Australia. However, Australia's mandatory climate reporting scheme has since commenced and covers both listed and unlisted entities and will capture all entities with a similar size threshold to New Zealand's regime by FY27/28. It is important to note that there are many considerations for entities when deciding to list on NZX, relating to the governance uplift required and additional reporting requirements. Whilst climate reporting is one of the more recent additions, investors have placed increasing importance on understanding the climate risk associated with an entity.
3	When considering the listed issuer reporting threshold, which of the three options do you prefer, and why?

CA ANZ is strongly supportive of global alignment and interoperability for sustainability and climate-related disclosure standards.

It is important to note that there are differences between Australia and New Zealand's climate reporting regimes. A significant distinction is that the Australian regime captures listed and unlisted entities under its thresholds and requires the use of an equivalent to IFRS Sustainability Disclosure Standard S2 – *Climate-related Disclosures* (IFRS S2) excluding the requirement to disclose industry specific metrics. The overarching intent of the Australian regime is to provide greater transparency and more comparable information about an entity's climate-related risks and opportunities. There are several differences between the Aotearoa New Zealand Climate Standards (NZ CS) and IFRS S2. Additionally, the objectives of the New Zealand regime include to 'ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions' and to 'lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.' This context, and the variation in size of the respective markets, is important when considering how each of the options proposed may impact the outcomes the New Zealand regime seeks to achieve.

The discussion document notes (page 15) that the two regimes use different tools to determine whether an entity meets the threshold and that these are not equivalent. The calculation MBIE has outlined to draw comparisons appears logical but should be considered indicative only. To draw direct comparisons the same tests would need to be used in both the Australian and New Zealand regimes. It is worth considering whether changing the threshold test, rather than changing the thresholds, is a more appropriate solution if the objective is to achieve equivalence with the Australian regime. However, whilst we appreciate the importance of the comparison to the Australian regime, we consider it critical that any thresholds reflect the local context and distinct differences between the two jurisdictions, noting that any threshold will always be arbitrary.

Of note is that the Australian regime is aligned with the financial reporting requirements. Mandatory climate-related financial disclosures apply to large entities that are required to prepare and lodge annual reports under Chapter 2M of the Corporations Act 2001. Large entities are defined using size thresholds equivalent to the existing large proprietary company definition. In New Zealand, the financial reporting requirements are such that companies with total assets exceeding \$66m or total revenue exceeding \$33m must prepare general purpose financial reports.

We note that option 1 (status quo) is broadly aligned with where the Australian regime will be once all groups are reporting under the regime.

The discussion document indicates that, should these amendments be incorporated into a bill this year, the changes would not come into effect until early 2026. At this point, CREs will already have completed their second year of reporting by the time the changes are implemented. Given these considerations, we are supportive of option 1 i.e. retaining the current thresholds.

Option 2 would significantly reduce the number of CREs required to report and, according to the discussion document, the thresholds would only be broadly similar to Australia's group 1.

As noted above, the objectives of the regime include ensuring businesses consider the effects on climate change in their decision making. In our opinion, option 2 would have a significant impact on this objective. Better disclosures facilitate more informed decision-making and

	enable market forces to drive efficient allocation of capital and support a smooth and just transition to a net zero greenhouse gas emissions economy. We note that option 3 is likely to cause confusion for CREs, as it will exclude some that (as indicated) would already have reported twice under the regime, only to include them again at a later date. There is a risk that this could result in the de-prioritisation of the establishment of the relevant internal systems and data collection processes. If there is significant feedback in favour of increasing the threshold, we would propose amending option 2 to an alternative value below \$500m. According to the discussion document, this would apply to 81 listed issuers, compared to 107 under the status quo. For example, a threshold of \$250m would bring New Zealand's regime broadly in line with group 2 in Australia. However, we consider it important to note that global investors have indicated this information is important to their decision making and this threshold only applies to listed entities.
4	If the XRB introduced differential reporting, would this impact on your choice of preferred option? As noted above, these disclosures are particularly relevant for listed entities to inform investor decision making. The objectives of the regime also include ensuring businesses consider climate change in their decision making. We support differential reporting as a way of ensuring the disclosure requirements for smaller entities within the regime are targeted and relevant for their stakeholders and minimising the associated reporting costs, whilst still ensuring CREs consider climate change in their decision making. We have noted our preference for option 1, i.e. to retain the status quo and we consider the introduction of differential reporting would strengthen our choice. We also note that some stakeholders have noted the potential inequity in the requirements for listed and unlisted entities in relation to the disclosure of climate-related risks and opportunities and that this could give rise to unintended consequences. We consider that differential reporting may better position the regime to be applicable to unlisted entities, noting the regime's objectives are also relevant to them. However, as the discussion document notes, interoperability with international standards is important. We look forward to engaging with the XRB when its proposals for differential reporting are released.
5	Do you think that a different reporting threshold for listed issuers should be considered (i.e., not one of the options above) and, if so, why? As our comments have indicated, our preferred option for listed issuers is to retain the status quo. However, as noted in our response to question 3, if there is strong support for amendments to the thresholds for listed issuers, then we would support consideration of a singular move to an increased threshold of \$250m market capitalisation. In line with the calculations in the discussion document, this would mean broad equivalence with Australia's group 2 settings.
6	If Option 2 or 3 was preferred do you think that some listed issuers would still choose to voluntarily report (even if not required to do so by law)? And, if so, why?

	Some of our members have indicated that some entities are likely to report voluntarily as they will already have the required systems and processes in place. Further, they see a market need for this information, with investors, suppliers and customers all taking a keen interest in climate-related disclosures to inform their own reporting and decision making. We also note that many jurisdictions in Asia and Europe, key trading partners for New Zealand, already have climate-related disclosure requirements in place for listed entities and many are considering adoption of IFRS Sustainability Disclosure Standards.
	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime?
7	As our comments have indicated, CA ANZ is supportive of the regulated climate-related disclosure regime. Better disclosure will facilitate more informed decision-making for businesses and investments, while enabling market forces to drive efficient allocation of capital and support a smooth and just transition to a net zero greenhouse gas emissions economy. As noted, an objective of the regime is to ensure businesses consider the effects on climate change in their business and investment decisions. We are aware that entities which are adapting to the effects of climate change and the transition to net zero can access finance at a lower cost of capital. It is also important to note that there are disadvantages for listed issuers <i>not</i> being included in the regulated climate reporting regime, as this is increasingly information that trading partners and international investors are looking for to enable their decision making and inform their own reporting.
	Do you have information about the cost of reporting for investment scheme managers?
8	We have heard feedback that the implementation cost has been substantial, but we do not have specific information or data on such costs.
	Do you have information about consumers being charged increased fees due to the cost of climate reporting?
9	We have not received any specific feedback from our members relating to the cost of climate reporting being passed on to consumers.
	When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why?
10	We note that, under option two, assets under management that are in the scope of the regime would reduce by approximately 19% (from \$185 billion to \$150 billion) but reduce the number of managers by 48% (from 23 to 12). This would also align the threshold with the Australian regime. We therefore consider option 2 strikes an appropriate balance of reducing the number of investment scheme managers required to report whilst retaining a significant value of funds under management. We share the concerns noted by MBIE on page 23 that option 3 could result in the creation of opportunities for avoidance through scheme structuring.
11	If the XRB introduced differential reporting, would this impact on your choice of preferred option?

	Refer to our response to question 4. This would not influence our preferred choice but we do consider differential reporting could be particularly beneficial for investment scheme managers. The Aotearoa New Zealand Climate Standards are based on the recommended disclosures from the Taskforce for Climate-related Financial Disclosures (TCFD). These are particularly focused on providing consistent and comparable information to inform investor decision making and for regulator understanding of climate-risk in the financial system. However, the stakeholders interested in climate statements prepared by investment scheme managers are not typically capital market investors and therefore their information requirements are likely to differ. Differential reporting would enable the XRB to identify the relevant decision useful information for investment scheme managers to report.
12	Do you think that a different reporting threshold for investment scheme managers should be considered (i.e., not one of the options above) and, if so, why? No. As noted above, we consider option 2 strikes an appropriate balance between reducing the number of investment scheme managers required to report whilst maintaining coverage of the funds under management.
13	When considering the location of the thresholds, which Option do you prefer and why? We support option one, retaining the thresholds within primary legislation. CREs should have certainty in their disclosure requirements to enable appropriate investment and resource allocation. There is a risk that moving the thresholds to secondary legislation could increase market uncertainty and we do not consider that to be in the public interest. Further, financial reporting thresholds are included within primary legislation and we do not consider there to be a sufficient basis for deviating from this practice for climate reporting thresholds.
14	For Option 2 (move thresholds to secondary legislation) what statutory criteria do you think should be met before a change may be made, e.g., a statutory obligation to consult. What should the Minister consider or do before making a change? It will be important that the standard Parliamentary process is followed, including consultation as appropriate. The potential introduction of a Regulatory Standards Bill may have an impact on what this process looks like, underscoring the importance of getting those settings right.
Chapter 3: Climate reporting entity and director liability settings	
15	When considering the director liability settings, which of the four options do you prefer, and why? As addressed in the Consultation, the potential liability for directors is similar under both the CRD and financial reporting regimes. However, unlike the financial reporting regime, the CRD regime is both novel and requires disclosures that are often-forward looking. We consider it important to ensure the liability settings support good quality disclosures. Option 4 is more aligned with the approach taken in Australia and is our preferred option. We note that its temporary nature provides an interim period to enable climate-related disclosure practice to mature, both for CREs and also climate statement users in understanding the information reported, its limitations and basis. Our view is that option 2 would be the next most preferred option, noting that it would only remove directors' personal liability for section 534.
16	Do you have another proposal to amend the director liability settings? If so, please provide details. No

17	If the director liability settings are amended do you think that will impact on investor trust in the climate statements?
	We consider this would depend on the option adopted.
18	If you support Option 3, should this be extended so that section 23 is disapplied for both climate reporting entities and directors? If so, why?
	N/A
	If you support Option 4 (introduce a modified liability framework, similar to Australia) what representations should be covered by the modified liability, i.e., should it cover statements about scope 3 emissions, scenario analysis or a transition plan, and/or other things?
19	Our view is that scope 3 emissions, scenario analysis, and other forward-looking statements should be covered by modified liability, similar to the Australian regime. We also recommend extending the modified liability framework to include assurance practitioners. Whilst we appreciate this would initially only relate to scope 3 greenhouse gas emissions, we suggest such amendments are drafted to apply to the same disclosures as for directors to allow for any future extension of the assurance requirements.
	If you support the introduction of a modified liability framework, how long should the modified liability last for? And who should be covered, ie., should it prevent actions by just private litigants, or should the framework cover the FMA as well? (Criminal actions would be excluded)
20	We suggest a maximum period of five years, while the regime becomes embedded. To maintain investor trust, we consider it important that, for the most egregious breaches, the FMA can still take action. We note the discussion document highlights the FMA's pragmatic and educative approach.
Chapter 4: Encouraging reporting by subsidiaries of multinational companies	
	Do you think that there would be value in encouraging New Zealand subsidiaries of multinational companies to file their parent company climate statements in New Zealand?
21	We do not see the value in encouraging New Zealand subsidiaries of multinational companies to file their parent company climate statements in New Zealand. However, we do consider such an approach would be beneficial if New Zealand branches of overseas companies could file their parent entity climate statement instead of producing a climate statement for the New Zealand branch only. Members have indicated that there are some instances where branches meet the criteria to prepare their own climate statement, but that they often do not provide decision useful information for stakeholders in the way that the regime intends. Given this, if the parent entity prepares a group climate statement aligned with IFRS S2 or NZ CS 1, then we suggest the New Zealand branch should be permitted to file this instead of preparing its own climate statement. If there is relevant, material information specific to the New Zealand branch, for example metrics and targets, then this information could be disclosed locally in addition. We also suggested that disclosure requirements for branches should be considered as part of the XRB's differential reporting project.
	Do you think that, alternatively, there would be value in MBIE creating a webpage where subsidiaries of multinational companies could provide links to their parent company climate statements?
22	Yes, if the status quo remains and the parent entity climate statements are intended to be additional to any local reports which have been lodged, then there is value in the creation of a webpage where subsidiaries of multinational companies could provide links to their parent entity climate statements.

Final comments

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Please use this question to provide any further information you would like that has not been covered in the other questions.

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 139,000 financial professionals, supporting them to build value and make a difference to businesses, organisations and communities in which they work and live.

We make this submission on behalf of our members and in the public interest.

CA ANZ continues to be an advocate for, and supporter of, appropriate climate-related financial disclosures and reporting for decision-making. Better disclosure will facilitate more informed decision making while enabling market forces to drive efficient allocation of capital and support a smooth and just transition to a net zero greenhouse gas emissions economy.

With this in mind, we would like to highlight the importance of prioritising the development of a robust CRD assurance regulatory regime. There is a critical role for independent external assurance to provide credibility to climate statements which would help drive a reallocation of capital for a just transition to a more sustainable, low-emissions economy.

We also note that the discussion document appears to be missing the consideration of around forty entities. Summing the 107 listed entities outlined in option 1 (status quo) and 23 managed investment scheme managers in status quo, the total number of entities considered for amendments to the thresholds totals 130.