

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

## Your name and organisation

Name	S9(2)(a)
Date	14 February 2025
Organisation (if applicable)	Environment and Conservation Organisations of Aotearoa New Zealand <i>Inc(ECO)</i>
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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 only the information included in the discussion document, which states a median cost of \$250,000 - \$300,000 for published climate statements (excluding internal time). This does not seem to be an excessive cost for the first round of climate reporting for the entities (CREs), which are all large publicly listed companies, banks, insurers, or investment managers.

We would anticipate the cost to be less for subsequent climate statements, as companies would then have a better idea of what to do and systems set up. Indeed, page 14 of the discussion document states, "We expect that the cost of climate reporting will reduce over time as reporting entities become more familiar with the process to produce climate reports." Further, we understand that for the first tranche, there was a wide range of climate statements, some being simply a brief section of an annual report, others being glossy, multi-page, detailed standalone publications (<https://minterellison.co.nz/insights/crd-register-observations>).

We note that the Financial Markets Authority has provided guidance to assist CREs, including a 12-page document to help with producing the statements, and a 46-page document of illustrative examples. They say: "We expect that FMA requests for climate records will vary in volume and complexity. This will depend on the focus of our monitoring of a particular climate statement, and on the size and nature of the reporting entity and the complexity of their climate records. We therefore anticipate that the default five-working-day response window will, in some cases, not be enough time for a CRE to identify, retrieve, review and prepare the requested records" (<https://www.fma.govt.nz/assets/Guidance/Guidance-for-keeping-proper-climate-related-disclosure-records.pdf>).

To ECO, five working days, in some cases, a few additional days, does not sound like a huge amount of work for a large entity with a large number of staff, and the timeframe to lodge statements within four months of the entity's balance date seems a generous amount of time. Besides, the meetings and reports that form the basis of the climate records would seem to be the sort of discussions and records that responsible entities would be producing anyway, as a matter of course.

Furthermore, the New Zealand standards have content exemptions that apply to the initial reporting periods. NZ CS 2 provides transitional exemptions in the form of adoption provisions for eight aspects of all climate statements, including financial impacts, transition planning, and scope 3 GHG emissions.

ECO would like to emphasise that the costs of slow action or inaction on climate change are very high. The climate is vulnerable from emissions and the destabilisation of the climate is a matter of vital and global as well as local concern. The deadline for these submissions is just two years since Cyclone Gabrielle and we have to know about and tackle and reduce GHG emissions. The capacity of the environment to cope with emissions and the destabilisation of biophysical systems is something that is scarce, affects us all and is a "public good – ie non-rival and non-excludable and so must be collectively managed because private benefits are gained but markets do not regulated them. It is essential that climate denial and tolerance of globally damaging emissions are documented and reduced with markets and government actions and pressures.

	It is well known that markets rely on good information, as do public entities who need to track emissions. Investors, consumers and suppliers need to know what the market and non-market costs are involved in the products they invest in, buy or trade.
2	<p>Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand?</p> <p>No.</p> <p>We understand that listed companies in Europe are obliged to comply with the Corporate Sustainable Reporting Directive, a directive adopted in 2022 which requires companies to report more transparently on their sustainability performance. We consider this to be comparable to NZ's climate-related disclosures (CRD) regime and that similar requirements will continue to be introduced around the world and be increasingly expected by stakeholders.</p>
3	<p>When considering the listed issuer reporting threshold, which of the three options do you prefer, and why?</p> <p>Option 1 (the status quo). As stated in the discussion document, "A downside of reducing the number of entities reporting under the regime is that the likelihood that the regime will achieve its aims is reduced because there will be less information available to inform investor decision making (pg 18)." Also from the discussion document (pg 19): "... the 'stop start' approach in Option 3 may have downsides for climate reporting entities and users of the reports. For example, it may be costly for climate reporting entities to pause and then re-start reporting, and it may be confusing for users of the reports if there is a gap in reporting."</p> <p>There is the suggestion of a staged approach to allow professionals "to upskill before the smaller listed issuers are required to resume reporting, which should help to reduce the costs of producing the climate statements" (pg 19). However, as stated in our answer to Question 1, the FMA provides guidance and examples, and even smaller issuers are relatively large, with a large staff, and the timeframe within which to lodge a statement is four months.</p>
4	<p>If the XRB introduced differential reporting, would this impact on your choice of preferred option?</p> <p>No.</p>
5	<p>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?</p> <p>No.</p>
6	<p>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?</p> <p>Yes. Because (a) the purpose of the CRD regime is to ensure that the effects of climate change are routinely considered by companies, and (b) this type of reporting is increasingly being introduced and increasingly being demanded, due to growing awareness of the enormous cost of climate change to the planet.</p>
7	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime?

ECO considers the advantages to be:

- (a) climate change being routinely considered in business decisions, such as lending, insurance, and investment;
- (b) helping businesses demonstrate their responsibility and foresight in considering climate issues;
- (c) encouraging businesses to consider their governance, strategy, risk management, metrics and targets and gas emissions, and climate-related risks and opportunities;
- (d) enabling investors and other stakeholders to assess how entities are considering those risks and opportunities, and responding to demand for more useful disclosures; and
- (e) enabling the allocation of capital towards activities that are consistent with a transition to a low-emissions climate-resilient future.

We also note the following from the discussion document (pg 19):

“As CRD regimes continue to bed-in and expand globally, we foresee that the ability to demonstrate an understanding of, and support, climate-related reporting will become a key competitive advantage for New Zealand businesses. New Zealand companies that have invested in upskilling will be well placed to seize opportunities and protect market access. We know that some large international investors are demanding information in the climate reports from entities and funds. Without disclosure from New Zealand entities, New Zealand companies may miss out on global capital flows. Financial institutions (banks, insurers etc.) are also increasingly demanding this information.

“New Zealand entities may also find it more difficult to raise capital and export if New Zealand’s climate reporting regime is seen as being set at a lower level than in other comparable jurisdictions. Over 80% of New Zealand’s exports by value are going to markets that have mandatory ESG reporting in force or proposed. Also, if entities are not required to report they may miss out on the benefits gained from getting a better understanding of their climate risks and opportunities through the reporting process.”

ECO is not aware of any significant disadvantages of a listed issuer being in a regulated climate reporting regime.

8	Do you have information about the cost of reporting for investment scheme managers?
9	No, but we would be interested to see this information, as there is little evidence in the discussion document.
9	Do you have information about consumers being charged increased fees due to the cost of climate reporting?
9	No, but we would be interested to see this information, as there is little evidence of this in the discussion document.
10	<p>When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why?</p> <p>Option 1 (status quo) because raising the threshold would reduce the information available for investor decision making. Option 2 or 3 may impact the CRD regime purpose of supporting the transition to a low emissions economy, and Option 3 may create opportunities for avoidance. In addition, investment scheme managers who are no longer required to report may not benefit from getting a better understanding of their fund’s climate-related risks and opportunities. As per the discussion document (pg 23), “A recent GlobeScan survey of 5,000 retail investors in 10 countries also reports that 86 percent of retail investors somewhat or strongly support investment funds providing information on the impact of investments on climate change. This suggests that there continues to be demand for disclosures.”</p>
11	If the XRB introduced differential reporting, would this impact on your choice of preferred option?

	No.
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.
13	When considering the location of the thresholds, which Option do you prefer and why? Option 1 (in the FMC Act), because that is where it is currently located, so potential confusion due to a change would be avoided, and because of potential loss of certainty for the market.
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? There should be a statutory obligation to consult.
<b>Chapter 3: Climate reporting entity and director liability settings</b>	
15	When considering the director liability settings, which of the four options do you prefer, and why? Option 1 (status quo) because we have read that at least initially, the FMA has a "broadly educative and constructive approach" towards enforcement in the early years, as outlined in the FMA's CRD Monitoring Plan 2023–2026. The FMA also states that it would reserve enforcement action for serious misconduct, e.g., where statements are misleading or deceptive.
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?
18	If you support Option 3, should this be extended so that section 23 is disappplied for both climate reporting entities and directors? If so, why?
19	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?
20	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)

#### Chapter 4: Encouraging reporting by subsidiaries of multinational companies

21 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?

Yes.

22 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?

Yes. It would seem useful to have this information easily accessible, however it is done.

#### Final comments

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

The discussion document (pg 4) states that: "The disclosure regime is a useful tool to promote consideration of climate change in business decisions." ECO is supportive of the disclosure regime and we are pleased that New Zealand was among the first countries in the world to introduce climate reporting, because we consider this reporting to be very important. We are in full support that one of the purposes of the CRD regime is to help smooth the transition to a more sustainable, low-emissions economy (pg 9). We note that prior to this regime, New Zealand's largest entities provided limited information on how climate change could impact their operations.

The environment and environmental systems and functions are the basis of life and of production. Climate change is a global emergency and the rapid reduction of all greenhouse gases is essential to protect natural systems and systems functioning. The WHO states that: "Climate change presents a fundamental threat to human health. It affects the physical environment as well as all aspects of both natural and human systems – including social and economic conditions and the functioning of health systems" (<https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health>).

Our government should be putting in place systems, structures, and policies to reduce emissions. The CRD regime is part of this work.

We do not think New Zealand should necessarily be in line with Australia with its CRD regime, as Australia has a heavy reliance on resource extraction, has high carbon emissions per capita, and is not committed to transitioning to a greener economy.

Interestingly, analysis by MinterEllison at <https://www.minterellison.co.nz/insights/climate-disclosures-in-australia-vs-new-zealand-the-key-differences> suggests that the requirements in Australia for climate change reporting are generally more stringent, requiring greater breadth and depth of information.

We note that some businesses have been addressing climate change in their own way for many years and that many members of the public have made their own changes and are sensitive about which companies they would support with their purchases and investments, wanting to know more about a company's climate-related risks and opportunities.

On page 4 of the discussion document, it is stated that "the regime settings ... are hampering the efficient operation of New Zealand businesses." This vague statement is not backed up by anything more, unless what is meant is the time and cost for the first climate statements.

As for the government's concern about the reporting causing an "undue burden to businesses" (pg 19), which the discussion document says MBIE would be interested in our views about, this burden

can be compared with the enormous burden the planet is facing from the effects of climate change. Our government should be strongly committed to making sure that we are doing the most we can to reduce emissions and address other climate change issues and to adapt to climate change. New Zealand is one of the 196 parties to the legally binding Paris Agreement.

We observe that there is an expansion of climate reporting around the world and that corporates in some countries are already legally required to invest in sustainable products. In July 2023, the European Commission adopted the first set of European Sustainability Reporting Standards, whereby companies are required to report on sustainability-related impacts, opportunities and risks under the Corporate Sustainable Reporting Directive. These cover the full range of environmental, social and governance issues, including climate change, biodiversity and human rights. They provide information for investors to understand the sustainability impact of the companies in which they invest.

We note that on 26 September 2022, a consultation by the External Reporting Board on the CRD standards concluded, meaning that entities had the opportunity for feedback prior to the commencement of reporting.

The FMA has looked in the first reporting year at setting expectations, with a monitoring report to inform the second years' climate statements, with the option to write to individual CREs with specific feedback. They will continue to review climate statements and provide feedback to support better practice.

Thank you for this consultation.

We are interested to continue to be involved in this issue.

Nga mihi nui,

S9(2)(a)

ECO