Shape the future with confidence

Ernst & Young Limited
2 Takutai Square
Britomart
Auckland 1010
PO Box 2146 Auckland 1140

Tel: +64 9 377 4790
Fax: +64 9 309 8137
ey.com/nz

Corporate Governance and Intellectual Property Policy
Building, Resources and Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140
New Zealand

14 February 2025

Feedback - Capital Markets Reforms - Adjustments to the climate-related disclosures regime

Dear Sir / Madam

Ernst & Young New Zealand (EY) welcomes the opportunity to comment on the Consultation Document, Adjustments to the climate-related disclosures regime discussion document, issued by the Ministry of Business, Innovation & Employment (MBIE).

We have provided a response to certain elements of the consultation, where we can provide useful contributions based on our experience as a service provider to Climate Reporting Entities (CREs) and an assurance provider in relation to GHG emissions and climate statements:

- **Upfront establishment costs should be excluded from the cost/benefit analysis:** When evaluating the cost-benefit analysis of the disclosure regime, we encourage first year costs associated with setting-up climate reporting processes to be excluded. Once these processes are established, we expect maintaining them will require much less effort while still providing the intended benefits. Therefore, if the initial setup costs are not representative of ongoing costs, they should not be considered when analysing the ongoing benefits of the disclosure regime.

- **Potential risk of regulatory arbitrage will be short lived, and therefore, differential reporting appears a more beneficial solution than increasing thresholds:** The consultation highlights a problem of regulatory arbitrage with Australia, particularly that New Zealand entities are required to report sooner when compared to similar size companies under the Australian regime. It also notes that by 1 July 2027 all entities (Group 1, 2 and 3) within the Australian regime, are required to start reporting under the Australian climate-related disclosure standard (AASB S2) as well as obtain assurance. At this point, the regulatory arbitrage based on the size of thresholds would be removed. The Australian reporting regime has different disclosure obligations and increased assurance requirements compared to the New Zealand regime. It also captures unlisted entities, as the thresholds apply to all companies registered under the Corporations Act 2001. Therefore, within a few years it is likely the Australian companies will spend more resources complying with their regime compared to New Zealand CREs.

Shape the future with confidence

Changing the reporting thresholds and introducing differential reporting both aim to address the same set of challenges faced by New Zealand CREs. However, we believe that adopting differential reporting, while maintaining the existing CRE thresholds is the more effective approach. This would allow smaller CREs and investment scheme managers to provide relevant disclosures to users while still reporting within a regulated reporting regime.

- **Location of the thresholds:** We support moving the thresholds to the secondary legislation to allow for future changes to be made more easily, as circumstances change.

- **Proposed changes to director liabilities:** We support adopting Option 4, (aligning with Australian regime) as this could lower costs and improve the focus of Climate Statements on key information.

  From our work with many CREs, we have observed numerous unintended impacts stemming from the current director liability regime. Due to the level of assumptions and uncertainty in some forward-looking disclosures, directors have been very uncomfortable with the public nature of certain disclosures. This has resulted in the need for significant legal assistance and led to lengthy Climate Statements (due to concerns about excluding potentially important information). In some cases, this has also resulted in the removal of climate-related targets and increased the perceived risks associated with setting ambitious targets. This has likely significantly increased compliance costs for CREs without clear benefits.

- **Other matters**: Climate-related reporting is not just important to users of listed company accounts and therefore consideration should be given to potentially looking at larger entities operating in NZ beyond listed companies. This has potential to even playing field, reduce barriers to listing and bring the regime more in line with Australia.

  For CREs captured by multiple climate-reporting regimes, the Government could consider allowing these CREs to report under ISSB standards (where this standard has been adopted by the other regime e.g. Australia, Singapore, Hong Kong etc), which may reduce their reporting burdens.

  While not addressed in the consultation document, we also believe that addressing the liability of assurance providers (as is currently being considered in relation to financial statement audit) would be beneficial to ensure a balanced and properly operating preparer / assurance model.

As MBIE considers the responses to this consultation, we emphasise that increasing the threshold for this scheme, could be detrimental to the purpose of the regime by undermining the changes to risk management capabilities CREs have already made in the first year of reporting and make our companies less attractive to domestic and

Shape the future
with confidence

international investors. Adjustments to director liabilities and differential reporting may be levers that address the challenges identified within the consultation while preserving the overall integrity of the regime.

Yours sincerely

Simon O'Connor
New Zealand Managing Partner

Pip Best
Partner – Climate Change and Sustainability Services