

Submission to the Ministry of Business, Innovation, and Employment (MBIE) Consultation on Adjustments to the Climate-Related Disclosures Regime

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Introduction

We welcome the opportunity to submit our views on the proposed adjustments to the climate-related disclosures (CRD) regime. Our recent research, "Extreme Weather Events in New Zealand: Financial Market-Related Impacts," investigates the impact of extreme weather events (EWEs) on share market in New Zealand. Our findings suggest that New Zealand's climate risk profile and financial market responses differ significantly from those in the Northern Hemisphere, raising concerns about whether climate disclosure policies based on overseas models are fully appropriate in the local context.

Key Research Findings Relevant to the Consultation

1. **Stable EWE Distributions:** The frequency and severity of EWEs in New Zealand have remained relatively stable over the past several decades, contrasting with accelerating trends in many Northern Hemisphere countries.
2. **Limited Financial Market Impact:** Our event study found that NZX50 share prices are largely insensitive to EWEs, suggesting that local investors already incorporate climate risk into their decision-making.
3. **Sector-Specific Variations:** While some sectors (e.g., air transportation, software services) show minor volatility in response to EWEs, most large firms demonstrate resilience due to strong infrastructure and risk management.
4. **Questioning the Need for Mandatory EWE Disclosure:** Given the weak correlation between NZ EWEs and financial market volatility, mandatory climate disclosure requirements could impose excessive compliance costs without delivering commensurate benefits.

Responses to Consultation Questions

1. **Reporting Thresholds for Listed Issuers (Chapter 2)**
 - The proposed alignment with Australia's tiered reporting system is problematic. New Zealand's climate conditions and financial market dynamics do not justify direct harmonization with Australia's CRD regime.
 - Given our findings on market resilience to EWEs, raising the reporting threshold for climate disclosures is warranted. A threshold aligned with the NZX50's largest firms (market capitalization > NZ\$550 million) would reduce compliance costs while maintaining transparency for systemically important firms.
2. **Director Liability Settings (Chapter 3)**
 - Directors should not be held personally liable for forward-looking climate disclosures based on uncertain and evolving science.
 - Given the relative stability of NZ's climate risks, excessive liability exposure may discourage directors from listing in New Zealand, negatively impacting capital market development.

3. Encouraging Reporting by Subsidiaries of Multinational Corporations (Chapter 4)

- If the government wishes to encourage climate disclosure by multinational subsidiaries, it should recognize that multinational parent-company reports may not fully reflect New Zealand-specific risks.
- We recommend allowing multinational subsidiaries to report under a more flexible regime that acknowledges their unique risk profiles.

Policy Recommendations

1. **Adopt a Proportional Approach:** Reporting requirements should be scaled based on firm size and sectoral exposure to EWEs.
2. **Focus on Material Risks:** Climate reporting should prioritize disclosures that provide meaningful insights into financial risk, rather than imposing broad and burdensome mandates.
3. **Avoid Unnecessary Compliance Costs:** Our research suggests that existing voluntary disclosures and market efficiency mechanisms already incorporate material climate risk into investment decisions.

Conclusion

New Zealand's unique climate experience and the absence of a material financial market response of NZX firm shares to extreme weather events suggest that policymakers should take a proportional approach to climate disclosures.

Our research highlights that applying Northern Hemisphere models to New Zealand without adaptation risks creating unnecessary regulatory burdens. We urge the MBIE to consider our findings in its review of the CRD regime.

We appreciate the opportunity to contribute to this consultation and are happy to provide further details of our research as needed.

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