

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

Your name and organisation

Name	S9(2)(a)
Date	21 February 2025
Organisation (if applicable)	Milford Asset Management Limited
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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? n/a
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand? n/a
3	When considering the listed issuer reporting threshold, which of the three options do you prefer, and why? n/a
4	If the XRB introduced differential reporting, would this impact on your choice of preferred option? n/a
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? n/a
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? n/a
7	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime? n/a
8	Do you have information about the cost of reporting for investment scheme managers?

	There were substantial costs incurred to prepare (and undertaken due diligence on) climate statements for the first reporting period, around \$200k. We would estimate annual costs to prepare climate statements to be c. \$50k+ per scheme, rising to \$75k+ per scheme once assurance is required. These are just estimates. It is difficult to know the actual cost, given assurance is yet to be scoped. In addition: ▪ there is a significant internal resource cost in preparing climate statements given the extensive time required by senior staff in relation to the preparation and due diligence of the climate statements. ▪ Given the broad range of investments made by MIS managers across jurisdictions, industry sectors and entity types, there is a significant third party subscription cost in order to obtain scope 3 emissions data for the underlying investments in the scheme. We suggest that the compliance costs for a MIS manager to produce a climate statement is disproportionately high compared to the value investors (particularly retail investors) would obtain from the climate statements. ▪ Retail investors are unlikely to find climate statements very useful – they are challenging documents (given the prescriptive nature of what is required to be reported) and require a fairly high degree of technical knowledge. Reduced and more tailored disclosures would likely be more useful to retail investors. ▪ The value of climate reporting is less for MIS managers than for other entities captured by the climate-related disclosure regime, as MIS managers are not directly responsible for activities within funds that have a climate impact and are therefore less able to take action in regard to those activities. An active MIS manager can simply sell the investment.
	Do you have information about consumers being charged increased fees due to the cost of climate reporting?
9	Currently, Milford (as a corporate) absorbs the costs associated with climate-related disclosure reporting and does not adjust the management fee charged to investors. However, as identified in the Discussion Document, if these costs continue to rise due to increased regulatory requirements, there is a risk scheme managers may pass some compliance costs onto investors, if they are not done so already. If these costs are not managed effectively, this may hinder New Zealand managers that are climate reporting entities to continue to be competitive against other local or foreign options with lower fees.
10	When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why?

	We prefer option 2. \$5 billion total assets under management (i.e., per manager calculation). Option 2 should alleviate some of the climate regulatory burden for smaller scheme managers, which may provide the opportunity for those managers to allocate resources towards innovation and sustainable practices and address climate-related issues in a manner that aligns with their capacity and scale, rather than focus on extensive compliance obligations. Option 2 is more closely aligned with the Australian and the UK frameworks. ▪ In Australia the threshold is set at \$5 billion in assets per scheme. ▪ In the UK public disclosure is required for asset managers with at least £5 billion of assets under management (AUM). By adopting option 2, the risk of regulatory arbitrage will be reduced compared to option 3, where a fund manager with more than \$5 billion in assets may not be required to report if none of their individual schemes meet the \$5 billion threshold. In our view, the threshold should strike a balance between enabling reporting entities to demonstrate responsibility in considering climate issues—thereby aiding the transition to a low-emission economy, and ensuring that the Climate-Related Disclosures (CRD) regime does not undermine New Zealand's competitiveness. The threshold should not be static but subject to periodic review as the economy evolves and grows. We support the Financial Services Council's submission that any change to the reporting thresholds should not be viewed as the only method to address issues and concerns with the regime. We encourage consideration in the upcoming XRB review on the reporting requirements and how these can be tailored and streamlined for MIS managers.
11	If the XRB introduced differential reporting, would this impact on your choice of preferred option? If the differential reporting ultimately results in more appropriately designed requirements for MIS managers, we would welcome this initiative. We would caution however that if they were to differ dramatically amongst MIS managers, this would only result in further cost and utilisation of resources – therefore this needs to be thought through carefully. It would be helpful if the model were to include a separate standard for MIS managers (differentiated from NZ CS 1) that is tailored to provide the appropriate disclosures for retail MIS investors, rather than differentiating between different types of MIS managers.
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 comments
13	When considering the location of the thresholds, which Option do you prefer and why? We prefer Option 2, moving to secondary legislation. This approach would allow greater flexibility and adaptability, facilitating change as the regime (and information available) evolves.
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?

Consultation should be required.

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?
	We prefer: 1. Option 2 in relation to s534 of the FMC Act; and ▪ A climate statement contains a significant number of forward-looking statements and assessments (for example, making statements about the climate-related risks and opportunities of a portfolio over a long period of time under different climate scenarios and providing metrics regarding this). In this respect, a climate statement is a very different document from financial statements or a product disclosure statement for a managed investment fund. ▪ The FMA has indicated that it requires a more rigorous due diligence process to be undertaken for climate statements than that applying to financial statements because unlike financial statements, climate statements are not audited and are only required to have limited assurance from the third reporting year in relation to greenhouse gas emissions. and 2. in relation to issuer and director liability under section 23 of the FMC Act, a short term safe harbour (Option 4). This would, similar to Australia, protect climate reporting entities and directors from civil liability under section 23 until such time as (i) the information sources are more mature in terms of integrity and accuracy, and (ii) the ambiguities in the regime have been resolved. We recommend that New Zealand align with Australia in terms of timing, and that this be revisited near the end of the safe harbour period.
16	Do you have another proposal to amend the director liability settings? If so, please provide details.
	Please see item 15 above.
17	If the director liability settings are amended do you think that will impact on investor trust in the climate statements?
	No. We think it highly unlikely that investors will be aware of the liability provisions relating to climate statements. In addition, we note that retail investors are unlikely to find climate statements (given the prescriptive nature of what is currently required to be reported) as very useful – it is a fairly lengthy document and requires a fairly high degree of technical knowledge.
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?
	Given the qualitative (and forward-looking) nature of some of the climate reporting required, it would be helpful for the guidance in this area to be very clear (if the liability under section 23 is not disapplied for both CREs and directors).
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?
	We suggest that this should be similar to Australia - forward-looking statements and statements about scope 3 emissions, scenario analysis and transition plans. For MIS managers, it should also cover the data obtained from third party tools such as MSCI.

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)
	We suggest that the safe harbour (i) align with Australia in terms of timing, and that this be revisited near the end of the safe harbour period, and (ii) cover all actions including FMA enforcement.
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?
	There are likely to be differences in requirements for non-New Zealand jurisdictions, particularly if reporting on specific scheme, therefore it would be difficult to see the value to an investor in filing parent company climate statements.
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?
	n/a
Final comments	
23	Please use this question to provide any further information you would like that has not been covered in the other questions.