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

Your name and organisation

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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?
	Mindful Money is a charity providing transparency on investment holdings and research for the investment sector. Climate change is a focus for our work, including publication of annual surveys on climate action by the NZ investment sector, undertaken jointly with the Centre for Sustainable Finance and the Investor Group on Climate Change. Mindful Money has interviewed a number of Climate Reporting Entities (CREs). On the basis of our analysis, the cost data cited in the consultation paper seems high, and should be put into context. There are set up costs for the first year of reporting and future reports will require far less time and cost. Further efficiencies can be expected as a result of experience. The benefits from reporting have not been included alongside the costs. Action to reduce climate emissions and reporting on those actions is increasingly an expectation of financial markets in New Zealand and internationally. The entities that do not produce climate reports will be disadvantaged in attracting capital. As the consultation paper cited ASB in noting: "demand for CRD information will continue to grow with more than 80% of New Zealand exports by value already going to countries with mandatory climate related disclosure regimes proposed or in force." Decisions on possible CRD changes should consider the value of CRD reporting, not just the initial cost.
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand?
	No, there are far more important considerations for potential listers on the NZX than CRD reporting.
3	When considering the listed issuer reporting threshold, which of the three options do you prefer, and why?

	Option 1. The reason is that a change in the NZ threshold could not be introduced in legislation until early 2026, presumably to apply to reporting starting on 1 January 2027 at the earliest. This is only 6 months before the Australian threshold for Category 3 listed companies will be $50 million (using the calculation in Table 2 of the consultation paper), compared to $60 million in NZ. By then, there will not be a problem of alignment with Australia other than an advantage to NZ through a lower reporting threshold for NZ CREs, as well as less detailed reporting requirements for larger CREs, and more limited coverage (eg. no requirement for reporting by NZ private companies). Option 2 or 3 would mean far less alignment with Australia. The threshold for Category 3, compared to $60m for NZ, would be $300m for Option 1 and $300m reducing to $250m for Option 3. These thresholds are far above Australia's. The changes in Options 2 and 3 would mean less alignment with Australia rather than more. This is not in the long term interests of NZ issuers. There would be a risk of more institutional investment flowing to Australian listed companies and investment funds, rather than their NZ competitors, for those investors requiring sound climate data for their own analysis or reporting. Lowering the standards of climate information provided could adversely impact on the competitiveness of NZ listed companies, as noted in paragraph 52 of the consultation paper. These changes would also not be in the interests of NZ investors who would not be provided with information on climate risks, opportunities and impacts. The GlobeScan survey, cited in paragraph 73 of the consultation paper, shows that climate reporting is important for 86% of respondents.
4	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
	No. This should be considered on its merits. We agree there is a case for lighter reporting requirements for smaller CREs.
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?
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?
	Yes, they may consider that would be in their interests. However, voluntary reporting would then make it far more difficult to achieve the aim of "allocation of capital towards activities that are consistent with a transition to a low-emissions climate-resilient future" expressed in the climate standards and legislation. The strong advantage of mandatory reporting is that it creates a framework for comparability. This would not be the case for voluntary standards.
7	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime?

For the issuer, it provides credible reporting to investors or potential investors. Internationally, investors not only need climate information from entities - they need reports to be part of a regulated process which provides confidence and consistency.

Increasingly, international institutional investors, particularly EU-based investors, have climate policies, targets and commitments, including Net Zero pledges. They require the companies and funds they invest in to be able to provide verified climate data. If NZ companies and fund providers are unable or unwilling to provide this information, they will be disadvantaged.

It is in the interests of issuers, and the NZ economy as a whole, to be an attractive destination for international investors, as has recently been emphasised by the current government.

There are also advantages to NZ investors and potential investors. They are able to understand the ways that NZ CREs are managing their emissions, risks and opportunities. This is crucial information for investors. Increasingly, climate risks are financial risks. Disclosure of climate data supports informed investment decision-making.

The importance of CRD for users is shown in the Interim Evaluation of the CRD, undertaken by the University of Otago. Respondents say that climate-related risks are highly important, almost on par with other financial risks. These risks are seen as becoming more important in the next one to five years. They also consider the disclosure framework will improve reliability of climate-related data, while providing material information.

8	Do you have information about the cost of reporting for investment scheme managers?

Mindful Money has interviewed a number of managers of Registered Investment Schemes. The cost data cited in the consultation paper seems high, and should be put into context. There are set up costs for the first year of reporting and future reports will require far less time and cost. Further efficiencies can be expected as a result of experience.

Many of the MIS managers have existing contracts with data providers, such as MSCI, Sustainalytics and S&P Global. They have extensive data on climate emissions for listed companies (which comprise the large majority of MIS portfolios). Their provision of climate data to many MIS managers precedes the introduction of CRD requirements.

There have undoubtedly been initial set up costs. These have varied significantly across fund providers. A number of fund managers have expressed the view that, having invested in setting up the systems, they would be concerned if that investment was no longer required for CRD reporting.

As noted in paragraph 51 of the consultation paper, the change in thresholds would mean there had been unnecessary commitment of time, cost and management attention in many CRD reports so far. A stop/start approach is not in their interests.

Based on Mindful Money's interviews, most CRDs would prefer to continue with the CRD reporting regime. Contrary to the assertion in paragraph 64 that "fund managers do not use climate reports or find the reporting especially useful" we have heard from a number of fund managers that they are already seeing the benefits of CRD reporting, a finding also from feedback provided to FMA and XRB, as well as the Interim Evaluation of the CRD, undertaken by the University of Otago for XRB.

9	Do you have information about consumers being charged increased fees due to the cost of climate reporting? We are not aware of additional consumer costs for listed companies. There may be costs passed on for investment managers, but even at the lower end of the threshold of $1 billion of assets under management, the increase in their costs would be a fraction of 1%.
10	When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why? We do not support change to the reporting thresholds without further research and consideration of the broader context of international standard-setting. The International Sustainability Standards Board (ISSB) has released its climate standard, and this has become a base for the widespread adoption of similar standards across many countries. The International Finance Reporting Standard IFRS2, the basis for Australia's standard, has significant differences to NZ's CRD. Consideration should be given to closer alignment, so NZ CREs are not required to produce additional reports for international audiences. That would impose additional costs and burdens on NZ CREs. As noted in paragraph 68 of the consultation document, the XRB intends to consult on the establishment of a differential reporting strategy for climate-related disclosures in 2025. The XRB's mandate should also include specific standards that are tailored to asset managers, including investment scheme managers. It would be premature for any decision to be taken on changes to reporting thresholds in advance of that review. In particular, we do not support Option 3. There are already a lack of coherence in the establishment of schemes with the NZ Companies Office. Basing CRD reporting criteria on the number of schemes, as in Option 3, could result in a proliferation of schemes established primarily to avoid CRD obligations, as noted in paragraph 71 of the consultation paper. The information shown reveals that the difference between options 2 and 3 is only 3 fewer managers but $60 billion less funds under management. This is a large reduction in funds covered but only 3 managers that would no longer need to report. As revealed in interviews with fund managers, the addition of more schemes and funds adds very little extra work once the basic reporting structure is in place.
11	If the XRB introduced differential reporting, would this impact on your choice of preferred option? Yes, MBIE/XRB have already shown that they are responsive to concerns over reporting requirements on assurance and Scope 3. The XRB intends to consult on the establishment of a differential reporting strategy for climate-related disclosures this year and decisions on thresholds should not be undertaken in advance of that process.
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?
13	When considering the location of the thresholds, which Option do you prefer and why?

	On balance, we would prefer to retain the status quo, for reasons set out in paragraph 77 of the consultation paper. CREs need a degree of certainty in future reporting requirements and the exercise of Ministerial discretion would be likely to lead to more frequent changes. In addition, retaining the provisions under the FMC Act would ensure there is Select Committee scrutiny and public accountability for changes.
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?
	As above, we prefer Option 1. Consultations are important but lack the transparency and accountability that is provided under Parliamentary scrutiny.

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?
	The government's objective in including director liability is to ensure that directors have the right incentives to provide sound governance of climate reporting obligations. With increasing climate risk, this is now even more important than it was when the legislation was developed. The CRD regime is still in its infancy and the FMA has signalled that they will take a learning approach initially. We agree this is important. Further, there are significant developments in international standards and their adoption by a range of countries that will result in valuable experience on implementation and liability.. We consider that there is not yet enough analysis and evidence to justify significant changes to the liability regime. It will be affected by planned reviews, including XRB's consultation on differential reporting, as well as CRE experience with reporting. The government has also asked the Law Commission to review directors' duties and liability. This would be an opportunity to ensure coherence across different sectors and issues. We therefore agree with Option 4 applying to forward looking aspects of reporting, specifically scenario planning and transition plans.
16	Do you have another proposal to amend the director liability settings? If so, please provide details.
17	If the director liability settings are amended do you think that will impact on investor trust in the climate statements?
	Yes. The intention of liability provisions is to assure the quality and good governance over climate statements. Any significant changes to the liability provisions, as envisaged in Options 2 and 3, would weaken the perceived quality of climate statements and the commitment of directors.
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?
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?

	There is greater certainty for directors over statements of record for past performance, particularly emissions. These issues should remain as part of director liability, including scope 3 emissions. However, further experience will improve the quality of forward-looking projections, such as scenario planning and transition plans. Directors need to be able to make ambitious plans without facing potential liability. Mindful Money therefore supports issues being part of a modified liability framework.
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)
	An initial period of two years should be sufficient time. This would also allow additional information and evidence to be developed as a basis for any change to the current regime. The additional time would allow for the completion of a XRB's review of differential reporting, consideration of adjustments to NZ's climate standards to align more closely with emerging international standards, analysis of NZ's experience with CRD and an analysis of international experience.
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?
	We do not see this would be of benefit. The reports would be prepared under the climate reporting regime of the parent company's home jurisdiction. Reports on differing standards could potentially lead to confusion.
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?
	It would also be difficult for the government to recover register costs for voluntary filing. The same result could more simply be achieved by subsidiaries including a hyperlink to the parent company statements.
Final comments	
23	Please use this question to provide any further information you would like that has not been covered in the other questions.