Corporate Governance and Intellectual Property Policy Business, Resources and Markets
Ministry of Business, Innovation & Employment

By email: **climaterelateddisclosures@mbie.govt.nz**

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Name and organisation

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Submission on Adjustments to the Climate-related Disclosures Regime

Thank you for the opportunity to submit on the proposed adjustments to the CRD regime.

Mint Asset Management's (Mint) overarching view is that any adjustments should be considered in light of upholding the purpose of the CRD regime, as set out in the General Policy Statement of the Bill introducing the regime. Some of the adjustments proposed in the discussion document would not allow for the purpose to be achieved. Similarly, a reporting scope too narrow does not allow for the main and additional purposes of the Financial Markets Conduct Act (FMC Act) to be achieved either. Furthermore, while some adjustments are necessary, it is important to remember this regime is still very new and will understandably come with teething issues and difficulties while best practice is being established. Making wholesale changes too early does not give confidence to the market, nor does it allow time for some difficulties to be ironed out and resolved naturally.

Despite recent developments from the new administration in the United States, there is still a clear general direction for increased disclosure on non-financial topics in developed markets around the world. Certainly, this is the case in markets that are key trading partners or are a source of global capital for New Zealand entities, not least Australia, the United Kingdom, Europe and China.

Mint is not a Climate-reporting Entity (CRE) but we did produce a voluntary climate report with the expectation we will eventually become a CRE, and because we recognise the risk climate change presents to our business and our investee companies. It is from this experience we provide our responses below, as well as information gleaned from observations and discussions with investee companies and other investment managers that are CREs.

We agree the regime as it currently applies has been costly and onerous and therefore believe adjustments to the reporting thresholds for both companies and investment managers are required. (Note when we refer to costs in this submission, we intend for it to capture the internal resource dedicated to producing a report alongside the monetary costs to do so). We have provided reasons below for which options we believe are most appropriate for the reporting thresholds moving forward. However, we also believe that following changes to the reporting thresholds, differential reporting guidance must be introduced by the XRB. This will allow for clearer expectations of reporting by investment managers, given the regime was primarily written for companies, and we believe will also encourage voluntary reporting.

We agree the current settings related to director liability are not suitable for a regime such as this where the topic is inherently qualitative and uncertain. As mentioned in the discussion document, removing deemed liability for directors would not affect the climate reporting entity's potential liability for failure to prepare climate statements in accordance with the standards.

While not specifically addressed in the discussion document, we also strongly advocate for the regime to be extended to apply to large unlisted issuers and government entities. Without this application, it is difficult for the purpose of the regime to be upheld. We also support the regime being moved out of the FMC Act and into another piece of legislation that's more suited, or the best option would be for it to be in a stand-alone piece of legislation.

It is important any changes made as a result of this consultation reach a balance between recognising this regime is new (and recognising there are always difficulties with adhering to a new regime) and the significant cost and resource required to produce a report. Differential reporting can assist here. Costs to date have also not included assurance costs which have the potential to be significant. But any changes made should be carefully considered to ensure they are not short-sighted and fail to uphold the purpose of the CRD regime.

Thank you for the opportunity to submit. Please find our response to specific questions applicable to us as an investor below.

Responses to discussion document questions

Chapter 2: Reporting Thresholds	
1	Do you have any information about the cost of reporting for listed issuers?
	We only have anecdotal information from discussions we have had with some of our investee companies, but we understand the cost has been significant for many. We would support differential reporting to help deal with this issue. However, it is also logical to consider that costs will likely be higher at the commencement of a new regime, especially if a strategic investment into the process was made, with the potential for proportional return on these costs as the entity establishes themselves as a leader. We expect these costs may normalise as reporting under the regime progresses and becomes a more repeatable process. Viewing the usefulness of a regime through only a costs lens is short-sighted and could lead to disadvantaging New Zealand entities on the global stage. As noted in the discussion document, CRD reporting could become a key competitive advantage for NZ businesses. New Zealand is also heavily reliant on exports, as pointed out, with over 80% of exports by value going to markets that have mandatory ESG reporting in force or proposed. Large international investors are also demanding information and NZ businesses may miss out on global capital flows if the regime is changed significantly. The opportunity cost due to a reduction in competitiveness on the global stage must be considered.
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand?

	There has been a lack of new listings in the NZ market for several years now. While we do not believe the reason can be isolated to a single factor, the complexity of reporting under the CRD regime could be a contributing factor. However, most developed markets including those of key trading partners are progressing with non-financial reporting. Even if it may fall out of favour or the burden be lightened during a political cycle in some markets, the general direction is clear. The commencement of Group 3 reporting after 1 July 2027 in Australia is also likely to capture many entities that may have otherwise considered listing in NZ, so we do not think limited interest in listing in NZ can be attributed to NZ's current CRD regime settings. Furthermore, we believe it most appropriate that large unlisted issuers and government entities are captured in the regime going forward. Not only would this remove one perceived barrier to listing in NZ, more importantly it would help to achieve the purpose of the regime, given the exclusion of these types of entities is damaging to progress towards the purpose.
3	When considering the listed issuer reporting threshold, which of the three options do you prefer, and why?
	Our preference is for staged reporting as set out in Option 3. This will assist in upholding the purpose of the regime and helps to align with the Australian regime. We agree with the view that the current reporting threshold is relatively low, especially in the context of the high costs of producing a report – and this is without including costs for assurance yet. These high costs of reporting are proportionately more impactful on lower market-capitalisation companies; although we do maintain the view that costs will normalise over the next few years as companies become more familiar with the regime and best practice emerges. The thresholds as proposed in option 3 mean companies which can afford the resource to produce a report are captured.
4	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
	We support differential reporting being introduced once changes to the thresholds are made (in line with option 3). We believe differential reporting being introduced might also encourage voluntary reporting from those who fall out of reporting due to threshold changes, or those who have never been captured but see the advantages in producing a voluntary report.
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, for reasons stated already, primarily around competitiveness and access to export markets or global capital, we believe there would be businesses that would still choose to voluntarily report. Many companies have already been producing TCFD reports ahead of the CRD regime being enacted, and TCFD is a voluntary regime. As previously stated, the general direction around the world is an increase in non-financial reporting; this will only increase as climate events increase in frequency and severity. If the XRB were to produce differential reporting guidance in addition to option 3 being chosen, we believe this would increase the number of voluntary reports produced further.
8	Do you have information about the cost of reporting for investment scheme managers?

	Mint produced a voluntary report, as we are not a CRE. Even a voluntary report was more onerous and costly to produce than we first expected. Discussions with peers who are CREs have led us to understand they similarly found it onerous and costly, alongside significant FTE resource spent on the process. Any consideration on costs should be balanced with the fact the regime is new and there are always increased costs when producing something for the first time. Naturally, we would expect costs seen in the first year of reporting to normalise as processes are embedded – but we concede these costs are still likely to be higher than first expected. In addition, as recognised in the discussion document, the high costs borne so far do not include assurance costs. We have heard from discussions with peers they expect assurance costs to cause a doubling of total costs compared to reporting alone. This is a significant burden so changes to assurance requirements should also be considered.
9	Do you have information about consumers being charged increased fees due to the cost of climate reporting?
	Yes, there is evidence this has been consistently passed through to the end investor. For very large schemes/managers, those costs are de minimis – but for smaller schemes/managers, this can have a material impact. When assurance costs are eventually included, it is likely the cost to the end investor will become significantly more material.
10	When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why?
	Our preference is for option 2. In line with our comments on question 4 above, differential reporting should then be introduced by the XRB following the change to option 2. This is even more crucial for investment managers to whom the regime is more difficult to apply. We do not support option 3 as we agree it might create opportunities for avoidance and should not be considered further. One problem identified in the discussion document is the quality of data from investee entities. Yet this was a reality accepted and understood by the XRB, with guidance provided to fund managers dealing with data difficulties. We believe this has likely contributed to the FMA's commitment to taking a pragmatic and educative approach to monitoring in the early years of the regime. The more investment managers that produce climate statements, and the greater the number of investee entities captured by reporting thresholds (not just in New Zealand, but also around the world) then the more pressure there is on entities (and third-party data providers relied upon by investment managers) to provide reliable data and thus should result in improvements to that data. Care should be taken if reducing thresholds for investment managers based entirely on data issues – this is a short-sighted approach. Option 2 is an appropriate balance as the resource a manager with \$5 billion assets under management (AUM) has compared to that of a manager with \$1 billion AUM allows for the ability to reduce the impact of data issues. In a discussion with Mint's chosen third-party provider for climate data recently, we received an undertaking from them that they are prioritising improvement of data collection times for companies under their coverage, to assist with data lag issues we had previously raised with them (and we know other managers have had the same discussions on data lag issues with their providers). No doubt this prioritisation is partly due to the onset of the Australian reporting regime, but it is also our belief that with most investment managers captured by reporting in NZ, the numerous requests received by third party providers would also be assisting with this prioritisation. This is evidence that some issues recognised with reporting will be ironed out as the regime becomes embedded in companies and investment managers.

11	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
	We support differential reporting being introduced once changes to the thresholds are made (in line with option 2). We strongly believe differential reporting being introduced will encourage voluntary reporting from those who fall out of reporting due to threshold changes, or those who have never been captured but see the advantages in producing a voluntary report (such as Mint).
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?
	We encourage no higher AUM threshold should be considered above the $5 billion AUM management as proposed under option 2. Already the number of managers under option 2 drops from 23 to 12: this is a significant decrease and makes it harder for the regime to uphold its purpose and support investor decision making. Further, considering the costs to produce a climate statement, these costs are suitably proportionate for a manager with $5 billion of AUM. However, consideration should still be given to assurance expectations given the expectation these are expected to double costs for investment managers. We would encourage further consideration of the assurance issue beyond the changes already conducted by the XRB. Certainty in settings is important when making this change. Managers who fall under the $5 billion threshold but expect to pass the threshold in the near future, have a runway to prepare capabilities to eventually report. Differential reporting guidance will also help with those on this runway to produce voluntary reports ahead of, and in preparation for, crossing that reporting threshold.
13	When considering the location of the thresholds, which Option do you prefer and why?
	While this is not an option proposed and is wider than just the location of the thresholds, we would prefer for the regime to be moved out of the FMC Act altogether. We do not believe this is a suitable location for it. It would be best as its own stand-alone piece (especially considering the trend of increases in other types of non-financial reporting offshore, which could also be captured in a new stand-alone piece).
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 do not have a strong view on which of the alternate settings is most appropriate, but we do support the reduction or removal of the current director liability settings. As pointed out in the discussion document, climate reports contain forward looking statements which are more difficult to substantiate, compared with financial reporting which is based on what has already occurred. Further, removing deemed liability for directors would not affect the climate reporting entity's potential liability for failure to prepare climate statements in accordance with the standards.
17	If the director liability settings are amended do you think that will impact on investor trust in the climate statements?
	No.