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

Your name and organisation

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About Nikko AM NZ

Nikko AM NZ is a subsidiary of a global asset manager, headquartered in Japan. Nikko AM Group manages over US$250 billion, and Nikko AM NZ manages just over NZ$9 billion.

The Nikko AM group has published voluntary TCFD climate statements for the past five years. This reflects a strong commitment to be a long-term steward of assets for our clients.

In New Zealand, Nikko AM NZ is primarily an institutional asset manager. Many of our clients have some form of ESG goals or values that we help to fulfil in the way that we invest. We also offer KiwiSaver and retail funds.

For the purposes of this consultation, we comment as both a reporting entity and as an investor in entities that are climate reporting entities.

Key ideas in our submission

1. **A climate report is not an answer to climate change in itself:** A climate report in itself does not have any impact on the environment. What gives a report meaning is to have action that a report is tracking. Therefore the best kind of report is something that is minimal and meaningful for the purposes of tracking change and that is engaging to stakeholders. Unfortunately, where we are now is that that climate reporting is a gold-plated exercise that in some cases has become so consuming as to divert resources away from real world sustainability activities. A lot of the content that is the hardest to produce is neither useful to an institutional investor, nor comprehensible to a retail investor. Hence content and approach needs to be rethought.

2. **Obligations on companies and directors need to be proportionate to the level of focus that the activity genuinely needs:** Hanging the sword of a 5 year prison term over the heads of directors for **any** breach of climate standards, elevates the importance of climate reporting above almost any other activity within a business. Query whether we really want directors to be more concerned about the minutiae of what is ultimately a best-efforts exercise than say the integrity of all their customer data, or serving customers, or carrying on core operations.

3. **The best long-term outcome is a regime that a) has more entities in but lighter obligations, and b) can be accepted by all sides of the political spectrum:** In the long term it is problematic to have only a few entities captured by the regime, but those that are caught subject to punishing obligations. It would also be problematic for New Zealand's climate reporting laws to lurch from one extreme to the other with each change of Government. Therefore we believe that the best strategic long term outcome for New Zealand is to work toward minimal and meaningful reporting by many.

4. **In the short-term we need to adopt the highest thresholds proposed:** Given how far away we are from minimal and meaningful reporting by the many and given how much volatility we are seeing in the world in terms of how or whether to report, the best approach for a small country is to have the regime only apply to the largest entities until, say 2028, when the legislation could be reviewed in light of where larger jurisdictions settle and following a radical rethink of what climate reporting should look like. It could even include collecting evidence as to whether customers are reading climate reports and information about why they are/or not.

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? During reporting season our domestic equities team specifically asked many of our investee companies about their climate reporting experience (including the cost and perception of the value-add they gained from working through the exercise). Feedback has been that costs (including assurance) is on average expected to be in the $500K to $1million range. More significant than the actual size of the spend is the internal time and resources being spent on the production of climate reports as a distraction from other activities. We have heard some investee claiming that resources have been diverted away from real world sustainability efforts in order to meet the climate reporting obligations. Our understanding is that it is the speculative scenario analysis, as opposed to the more concrete "here and now" GHG data that is driving a lot of cost and complexity into process. We do not want our investee businesses to be spending excessive time, money and effort on the more speculative content that is not only of limited value to us as institutional investors, but also unlikely to be read at all by retail investors as it is too esoteric. We also do not wish to see the burdens of producing climate reporting to be so great as to detract from other sustainability actions. Most of our investee companies are at the larger end of the NZX 50. However, it is clear to us from the burdens on larger players that the cost and effort in producing climate reports would be disproportionate for entities at the smaller end of the NZX .
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand?

	Yes. It is no secret that the NZX has been struggling to gain new listings prior to the introduction of the climate reporting regime. The reasons largely condense down to the fact that the NZX ecosystem often does not offer a level of analyst reporting, liquidity and access to capital that is perceived to be sufficient to offset the costs of listing, the burdens of complying with listing rules and other regulatory obligations, and the increased public scrutiny that goes with being listed. Adding hundreds of thousands of dollars of additional external costs and a complex technical exercise will further tip the scales against listing on the NZX. It is particularly true that smaller cap businesses, will not be resourced to spend hundreds of thousands of dollars in this regard. In addition, to the burdens of listing on the NZX being quite onerous in their own right, the ASX competes with the NZX for listings. The ability of the NZX to compete would be reduced for entities that would be required to produce climate reports if they were listed on NZX but not if they were listed on the ASX. <u>Director liability</u> It is difficult to say how much of a practical deterrent effect that director liability under the climate reporting regime is having on listing. This is first because the other factors described above are having more of a net impact on listing choices. Second, we have heard quite different responses to director liability. Some directors are extremely troubled by their technical exposure, others are currently taking a more sanguine view that as long as they are not one of the very large institutions, that they are within the pack of industry and making best efforts the law will not be enforced against them. The directors of more naturally risk averse institutions, such as banks, or businesses that are more natural targets for activism tend to be the most concerned about their exposure. The exposure probably has less impact for smaller entities considering listing, assuming that they are not high emissions businesses and therefore likely targets for activism.
3	When considering the listed issuer reporting threshold, which of the three options do you prefer, and why?

	We prefer a variant of Option 2: Our proposal would be to increase the capitalisation to $550 million and then to review the settings for the regime at a later point (say 2028) with no preconceived notion as to what the outcome of that review will be. Just as New Zealand has not got its regulatory setting for climate reporting right on the first attempt, we suspect that other jurisdictions will have the same experience. With this in mind, the best approach for a small jurisdiction is to keep the obligations light until it is clear where jurisdictions that are likely to have more of an impact on climate change are likely to settle. In this regard, while aligning with Australia has some obvious attractions, we should not take as a given that Australia will not itself be rethinking aspects of its regime once it has had a chance to try out the framework that it has created. Therefore committing to where Australia is currently headed to at the moment may not be the right answer.
4	If the XRB introduced differential reporting, would this impact on your choice of preferred option?

No. We believe that it is too difficult to overhaul the obligations and standards to the extent they need while keeping the regime live and everyone in it.

Over the long term, we agree that it would probably be better to have a large number of entities providing some kind of climate statement at minimal cost, than to have very few entities reporting and those that are reporting subject to highly complex, high-cost obligations.

However, getting to such an outcome would require quite a fundamental reimagining of what climate reporting means and would take time:

- We would need to have separate standards for fund managers so that they are more relevant to an entity that is reporting on risks and emissions within its funds , rather than risks in relation to its own business. Maybe fund by fund reporting should be reconsidered;

- Assurance should be reconsidered. We should be asking questions such as:

  Whether expectations of what an audit means in a speculative context are simply too high at present;

  Whether models produced by data providers could be audited once and then relied upon by industry;

  Whether some reporting entities should not be subject to assurance at all, or only every 3 years like AML.

- We should reconsider content of reporting in terms of excluding aspects that are difficult to carry out and highly unreliable at the same time e.g. metrics into the long term , calculations of value at risk etc. Instead focus on here and now GHG metrics and qualitative statements of strategy, so that reporting becomes a more affordable exercise.

- We should reconsider content so as to make it more accessible to the public, rather than something designed for climate specialists.

- The statute itself would need to change to give flexibility to consider the above issues.

Therefore, we again consider that the right approach to law reform now would be to set the threshold at $550 million and then reconsider what the regime should look like in 2028, including who should be in it. This would enable XRB to feed into that 2028 review an idea of what a new differential set of standards might look like and we would have a better view on of where the rest of the world has landed.

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?

	It is interesting that thresholds are based around size of entity, rather than carbon intensity of the business or sector. Under our current framework a small or large unlisted offshore gas exploration business would not be required to produce climate reports while a listed digital based business above a certain size would be. However, in the interests of time and because of the direction that the world is going in it may not be practical to consider reporting from the perspective of the sector risk.
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?
	We believe that it is likely that some listed entities falling below the $550 million thresholds will choose to provide some form of climate data, climate strategy or climate statements … but it is unlikely that they will seek to fully comply with the actual climate standards, unless they happen to be nearing the threshold anyway and anticipating crossing it in the future. Reasons why they will produce something are; institutional investor demand for data and to see transition strategy, the need to cover off climate risk as an element of financial reporting, the need to provide data in order to support applications for finance, if they are part of a global group of companies that is already producing global reporting, because their organisation holds itself out as environmentally positive, PR/media reasons. We do not believe that they will go all the way with regulated reporting because as we note above large parts of the regulatory reporting are too speculative to be of real value to institutional investors and too abstract to be comprehensible to retail investor. The lack of consistent approaches to climate reporting in other jurisdictions will mean that there is no compelling pressure to follow every aspect of the NZ regime. Also cost of audit relative to the value of audit is unlikely to stack up. Looking at what the market chooses to produce unforced, may be quite informative for guiding future regulatory design. Having said all of the above, one possible reason why entities might opt into a full regulatory regime would be if opting in provided some form of protection from legal exposure relative to producing something that has been devised by the entity itself.
7	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime?

	The answer to this question is highly dependent on how good the regulated framework is. For example a good regime could through standardisation make climate reports more accessible to retail investors. However, one of the reasons why climate reports are in fact excessively long and can be difficult to understand is because businesses have to tick off each of the items in the standard, even if some of them do not add much value to either a person on the street or to an institutional investor. In a good regime there is potentially regulatory safety in simply following the recipe that is laid down, whereas with a totally blank canvas every decision exposes your business. However, in this regime our experience as fund managers has been that on issues that most matter to fund managers (e.g. out of potentially hundreds of entities that we invest in in our portfolios, which do we focus on and why), there is no guidance in the regulation whatsoever. Producing a regulated report creates a perception of quality. Consolidation of location of data makes the harvesting of metrics easier. Having more freedom and not being bound by a regime means that you can tailor your climate position or data published to meet real investor demands. Consistency with global practice could be either enhanced or detracted by a local regulatory regime. Our business group has voluntarily produced global TCFD report for the last 5 years. There is almost no overlap between the global report and the New Zealand report. The New Zealand report is focused on the risks and opportunities of individual New Zealand funds, whereas the global report is a discussion of aggregated global funds under management. Governance and strategy of individual New Zealand funds is different from overall global governance and strategy of the group as a whole. In some senses having both perspectives of the micro and macro together compliment each other and provide a very informative package. On the other hand, it is unfortunate that none of the global cost time and effort counts as far as New Zealand is concerned.
8	Do you have information about the cost of reporting for investment scheme managers?
	The cost is heavily dependent on the number of funds in each scheme, as reporting is on a fund-by-fund basis. Anecdotally, we have heard that some large managers that have chosen to obtain assurance early have spent up to $1 million (with about $500K on assurance and $500K on internal costs). This is the high water mark. We expect most fund manager costs to be significantly less than this. However, most auditors were in a position to demand hundreds of thousands of dollars from most MIS managers, which is entirely disproportionate to value of reporting hence industry push back.
9	Do you have information about consumers being charged increased fees due to the cost of climate reporting?
	We would likely be forced to pass on our full costs to our funds if we are required to continue to report.
10	When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why?

	We have a similar view to the thresholds for listed entities i.e. take the highest threshold ($5bn per scheme) in the short term and reconsider whether to add in the next threshold as part of a further review the regime in say 2028, after we have had a chance to think about what a reworked regime might look like and learn the lessons from other jurisdictions. However, the difference for fund managers relative to listed entities is that the climate reporting regime is more problematic in terms of its ability to produce meaningful information so the case for selecting the highest threshold and removing everything else for the next few years is stronger because: • A lot of the standards do not make sense for fund managers because: Many of them are framed for entities that are reporting on activities in their own business rather than for businesses that are aggregating other entities activities e.g. standards around how identified risks impact deployment of capital within the entity do not make sense; The fact that fund managers can and do change investee companies all the time as opposed to being stuck with the same risks and opportunities until the business itself can transform presents a fundamentally different set of considerations that are not well catered to. (In fact one school of thought is that the reason why climate reporting works is because even applying a flawed methodology consistently to the same situation enables change in a climate reporting entity to be tracked over time. However when the thing that you are reporting on will be a different bag of assets, that aggregates different entities approaches each time you are looking at them, this logic breaks down.) • We are seeing outcomes where fund managers are having to report on: Multiple small funds that are not going to have any impact on the environment; and Funds of asset types like cash that are going to have no impact on the environment. For these reasons we believe that the case for having the highest thresholds before climate reporting kicks in is stronger for fund managers than businesses that are actually engaging in activities that emit carbon or that are exposed to climate risks and that need to establish long term plans to address these.
	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
11	See answer to question 4, except that the scale of the rewrite of standards would be greater for fund managers than listed issuers because the standards in their current form are clearly drafted for entities that are reporting on their own business activities.
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?

There is a case for considering thresholds around asset type and fund size as well as overall AUM.

Setting thresholds around fund sizes: Reporting is currently on a fund by fund basis. Under current law funds are required to report even if they contain almost no FUM. A lot of fund managers have small funds, that don't have the scale to efficiently absorb costs of climate reporting and that would have very little impact on New Zealand.

There is a question about assets in terms of whether cash funds and fixed interest funds should be required to report, or at least to report in the same way.

The cost and complexity of providing a climate analysis of a cash fund relative to practical real world value will never stack up.

To comment on the climate risk of holding a New Zealand dollar you would have to understand all the risks and opportunities across the whole economy. Despite the complexity of undertaking this task, in the end the risk of holding cash is very low, and there is often little an entity that needs to hold cash can do if there is some climate risk embedded in the New Zealand dollar. Therefore the value of unpicking the complexity does not stack up.

Fixed interest funds have slightly different reasons why they should be excluded or watered down in terms of reporting, but they come down to a similar point that they are much harder to provide genuinely meaningful information for (e.g. because they often involve ascertaining the risk of sovereign issuers) while also being intrinsically lower risk than equity issuers a) because of the nature of what the issuers do, b) the financial strength of investment grade issuers and c) that if any entity suffers losses those losses will consume all the equity before debt is at risk.

Our suggestion would be, even for entities with schemes of more than $5bn, carve out cash funds and funds of say $10 million and consider lighter obligations for fixed interest funds e.g. replace quantitative requirements and complex scenario analysis with qualitative statements.

13	When considering the location of the thresholds, which Option do you prefer and why?

	We believe that: • New Zealand will have to have a minimal level of alignment with how the rest of the world discloses. This does not mean that the New Zealand has to be exactly the same but it should not be doing things on a totally different basis. • However, there is a considerable way to go before the world settles on how to approach climate reporting. We are seeing significant volatility in terms of where climate considerations fit against other national priorities. • Taking a measured but light approach to implementing obligations in the short term while keeping some flexibility seems sensible. Therefore we consider that putting thresholds into secondary legislation in anticipation of making ongoing adjustments would be preferable. The nature of what being in the climate reporting regime requires an entity to do e.g. the requirement for assurance, should also be placed into secondary legislation, as the detail will inevitably change.
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?
	The Minister should consider evidence: As to whether consumers need the information in the reports e.g. by looking at how widely used reports are from other reporting entities. Also survey customers on how usable they are and which parts add the most value. As to the effectiveness of reporting on driving changes to climate outcomes e.g. by looking at outcomes that can reasonably be attributed to the reporting that remains in place here and overseas. As to the likely cost and impact on the businesses with the burdens of reporting.
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?

In terms of options, we support option 4, a short term safe harbour with a review of penalties in 2028.

There is currently a disconnect between:

- The reality that climate reporting is a best efforts exercise. Most reports will have gaps, estimates and uncertainties, and it might not be possible to comment on some matters to an audit level standard. Many reporting entities will know that their reports are not 100% compliant at the time of lodgement despite taking every practicable measure; and

- The absolute nature of the climate reporting obligations i.e: under the Standards the climate report "must include an explicit and unreserved statement of compliance. All requirements must be complied with for an entity to state compliance with Aotearoa New Zealand Climate Standards" [This is arguably something that you know to be untrue if you are aware of the flaws in your climate report] and

461ZG provides that it is an offence, punishable with up to 5 years in prison and a $500K fine, for a director to know that climate statements fail to comply at the time of lodgement.

If the two points above are put together, what Parliament done is to pass a law with the same penalty of severity as "assault with a weapon" that probably the majority of directors of climate reporting entities cannot technically comply with despite making all reasonable efforts.

Some examples that we grappled with:

- We are a fund manager identifying and reporting on climate risks and opportunities of our investee companies, but the standards ask us to comment on:

  "how climate-related risks and opportunities serve as an input to its [our] internal capital deployment and funding decision-making processes."

  This clearly makes no sense in our context. There then follow a series of other standards that explicitly ask us to answer as an entity, when we are reporting on risks and opportunities in funds.

  It is unfair to impose a series of standards on us that make no sense, and then make us provide an unreserved an absolute statement of compliance or our directors go to jail, whether they were at fault or not.

- We published "value at risk" metrics derived from an MSCI tool that recorded our fixed interest funds as having greater value at risk than our equity funds. This is a counter intuitive outcome. We noted our reservations and provided a number of reasons why models will struggle with generating the right real world answers for fixed interest funds. However, what this situation illustrates is that us holding true to following the most reputable models and methodologies results in us being forced to publish data that we believe to be wrong in a real world sense. On top of this we are required to model a 1.5degree scenario, which most of the worlds scientists consider to be impossible to achieve at this point. Having then been required to publish

	wrong data in an impossible scenario, the law also says that we cannot make any false or misleading statements. • We are being asked to comment on how climate risks and opportunities in portfolios will play out in the long term under different scenarios and provide specific metrics for this. In reality this is impossible. The only virtual certainty we have when thinking about our portfolio in the far distant future is that it will not in fact be comprised of the same set of assets that it does today. Therefore anything that we say about the far distant future has little merit. However, we are subject to laws that require us to be able to substantiate every statement. There is a fundamental conflict between the kind of exercise we are asked to perform and the normal rules and standards that apply to disclosures. What has saved the situation in the short term is that the FMA has been very explicit about their approach to enforcement i.e. that they will not enforce where they see best efforts being made and businesses clearly signposting deficiencies. However, creating a regulatory environment in which almost anyone could be subject to criminal sanctions if the regulator felt differently and was minded to enforce is not consistent with either Maori or English traditions of law and should be changed. Also the regulator is not the only entity that can take action and it is possible that class litigants or activists could choose to take a more aggressive line than the regulator and many businesses could be exposed despite acting in the most diligent manner possible. Therefore we would support a reframing of obligations to reflect the nature of the regime and the outcomes that we wish to see i.e. best efforts statements identifying the nature of climate risks within their business along with discussion about what businesses are choosing to do or not do about those risks. In terms of options, we support option 4, a short term safe harbour with a review of penalties in 2028.
16	Do you have another proposal to amend the director liability settings? If so, please provide details. The standards themselves could be drafted in a way that reduces unreasonable exposure e.g. • by providing for answers to be omitted if they are impossible to answer or the if data is too unreliable or for protections to apply if sufficient health warnings are provided. • Placing more emphasis on current emissions than far future impacts. • Changing the wording of the statement of compliance. It is worth considering whether climate reporting should have its own bespoke set of disclosure obligations and to exclude other more generic obligations, due to the unusual nature of the exercise.
17	If the director liability settings are amended do you think that will impact on investor trust in the climate statements?

	No. We are institutional investors. We have invested in many different types of entity over many years. Therefore we are qualified to comment on how our level of trust would change (or not). When dealing with highly regulated entities like major listed companies, we have never placed either more or less trust that a specific document produced by an investee business is true just based on the nature of the penalty that goes with it. When presented with a document we would assess it against other information that can gain from other sources and from what we know about the entity more generally, from any controls assessments that have been carried out and from information about similar businesses. As far as we are aware, our wider business group that we belong to and our peers do the same.
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?
	Yes. Removing director liability is helpful but would not solve for the fact that the company would still face obligations that may be technically impossible to comply with, which is not sustainable .
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?
	Whether or not the liability thresholds are changed there is merit in providing health warnings about the nature of the outputs of climate reporting. In particular almost all metrics potentially present false precision. We believe that most reporting entities have been transparent about the difficulties that they have had.
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)
	It should be until 2028 , when penalties and the regime as a whole should generally be reconsidered. It should apply to both private litigants and FMA. If criminal actions are not excluded we consider that the nature of the offence should be rewritten. As we note above most climate reports will have some flaws at this point, a lot of the time businesses and directors will be aware of those flaws. The framing of current criminal offence, which is absolute i.e. if you are aware of any breaches of compliance with the standards the offence is committed, would therefore mean that a lot of directors should currently be in jail despite making every reasonable effort.
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 noted where our global climate report could be found within our New Zealand climate report, so that it can easily be found if readers are interested. Actually lodging our global report on a New Zealand register could prove more confusing than helpful because it is carried out on a totally different basis to the New Zealand regime for example we are reporting on global aggregated assets under management and global strategy , whereas the New Zealand report is about specific New Zealand funds.
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?
	No strong view.

Final comments

23	Please use this question to provide any further information you would like that has not been covered in the other questions. <u>Hosting other manager funds.</u> Some MIS managers host the funds of other managers that are also reporting entities. There are a range of reasons for this: • Some MIS schemes are in reality simply platforms to distribute any fund that wishes to use that distribution channel; and • KiwiSaver allows members to belong to one scheme only, so a market solution for customers that wish to split their KiwiSaver between different managers is to include funds of different managers on their scheme. (Our GoalsGetter KiwiSaver Scheme offers funds from 5 other New Zealand fund managers for this reason). This raises a practical question as to the extent to which a business that is simply acting as a conduit for other managers, is required to duplicate the efforts of the manager that they are hosting and publish their own version of the underlying manager's climate report, or whether they can rely on the report of the manager that they are hosting. We do not consider there to be much merit in producing two climate reports in respect of the same ultimate fund. Therefore hosted funds where the underlying manager is already a climate reporting entity should be carved out of the regime. <u>A climate report is not in itself an answer to climate change.</u> A major point that does not feature in any of the discussions on climate reporting is that the production of a climate report is not in itself an answer to climate change. By this we mean that: • It is legal for a climate reporting entity to have a strategy of doing nothing about climate change, to set no targets, to have a transition plan of doing nothing and to do nothing to contribute to a 1.5 degree outcome and to

faithfully record all of this in its fully compliant climate report. In fact a "do nothing strategy" is the easiest way to draft a compliant climate statement.

- Conversely a business may be holding itself out as wanting to contribute significantly to help against climate change. Again the report is just a statement of intent that means nothing without the accompanying real world actions.

In both cases, we question how much value lies in producing a gold plated report. In the case of the first entity it has been very transparent that it is doing nothing, and it clearly considers that its customer base is not sensitive to the issue therefore what is the merit in making the administrative exercise extra costly and expensive if it achieves nothing? In the case of the second entity the preference would be to see the entity to progress real world actions rather than tipping all of its resources into the production of the piece of paper and delaying its real world progress.

To be clear we believe that there is value in making businesses turn their minds to climate change and be transparent about what their position is and what they plan on doing by producing a report, but does the report need: to be elevated above everything else that the business is doing, and does it need the level of gold plated speculation it currently includes to make its general point to investors? In our opinion as institutional investors the answer is "no".

The worst thing that we have heard anecdotally were instances of businesses diverting resources away from real world sustainability efforts in order to produce a climate report.

<u>Maslow's Hierarchy of needs applied to directors</u>

There are many different kinds of worthy issue that directors and businesses can spend their time focusing upon:

- The operational side of the business
- Profits and revenues
- Long term strategy
- Health and safety
- Cyber security
- Privacy/ protection of personal information
- AML compliance
- Risk
- HR
- Tax
- Understanding customer preferences
- Investor relations
- Maintaining property
- Marketing and PR
- Core relevant regulatory obligations
- General company law obligations

Matters that create personal liability for directors will obviously attract more director time and focus than those that do not, therefore personal liability issues are super elevated up the hierarchy of priorities.

Currently, given the complexity, scale and nature of the penalties that go with climate reporting, what Parliament has effectively said is that producing a climate report should consume more director focus for a listed business say than:

- Protecting customer information
- Understanding customer preferences
- Cyber security
- The operational side of the business
- Profits and revenues

It would be on a par with matters such as: health and safety and avoiding fraud and price fixing.

As investors , while we think that businesses should say something about climate, we do not wish to accord the total compliance with all aspects of climate reporting the super elevated priority, (particularly if the business is not particularly climate sensitive or not holding itself out as climate friendly), that it is currently being given. This is especially because so much of the content is so speculative.

We believe that penalties for breaches of different kinds of obligation should result in directors putting each matter within its appropriate place within what a company's objective hierarchy of needs should be. Failing to meet climate standards should have some sort of penalty for the **business**. Query whether director personal liability should apply at all, as in reality not writing a climate report in a way that meets all aspects of what is ultimately a highly speculative recipe is not at the same level of as the things that really should attract super attention from directors like, avoiding having employees die on site or participating in a cartel etc.

<u>Fund managers voluntarily producing climate information</u>
There was no question about whether fund managers would continue to provide some climate information even if they would no longer be reporting entities.

Our view is that some fund managers would continue to provide some information due to customer demand, or the nature of their entities (e.g. if they are a Christian fund manager) , but they would be unlikely to seek assurance of their GHG emissions and may not follow the letter of the obligations i.e. so we can make our reports more consumer friendly and cost effective. We note in this regard that our group has voluntarily published TCFD reports for the past 5 years, despite no regulatory obligations to do so.

<u>The need for the regime to continually develop</u>

It is worth emphasising that we believe that over time there will continue to be adjustments to climate reporting regimes around the world as jurisdictions try out climate reporting for the first time. Therefore we should not assume for example that what Australia is proposing to implement now, will be the same as what it will be doing in 5 years time.

Also it is an open question as to how achievable a 1.5 degree outcome is at this point. Therefore the current emphasis on that scenario and asking entities how they will transition to that scenario may need to change.

We believe that ultimately New Zealand will need to adopt an approach that has a degree of consistency with where the rest of the world settles (which will take time to play out).

In the short term it would make sense to keep the obligations relatively light and then consider reassessing down the track.

<u>Ideal outcome of a climate reporting regime</u>

In the longer term the ideal outcome would see:

- More entities in the regime, but the nature of the obligations being minimal and meaningful so that the burdens can reasonably fall on more entities;
- The content being more user friendly for the public;
- The regime pitched at a level that both sides of the political spectrum could live with so that New Zealand does not lurch from one extreme to another, which is what we are seeing in other parts of the world; and
- The stakes for errors in climate reporting being right sized, so that directors and companies are not focusing more on climate reporting than say their cyber environment or health and safety.