Submission on discussion document:

Adjustments to the climate-related disclosures regime

Your name and organisation

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onepointfive

Submission on Climate-related Disclosures Consultation from Onepointfive Limited

February 2025

SUMMARY

Onepointfive Limited is a New Zealand-based consulting and technology company established to help clients navigate the climate change risks and opportunities that increasingly pervade the world we operate in. Our team brings a breadth of experience in climate risk management, sustainability, finance, law and public policy. We work with corporate and public sector clients in infrastructure, banking and finance, and funds.

Climate risk is a subset of prudential risk management and good governance. This is why it is most practically baked into existing structures, processes, or Acts, that ensure and support good risk practice.

Onepointfive Limited supports the fundamental purpose of the Climate-Related Disclosure regime (CRD) in promoting transparency around climate-related risks and opportunities, enabling more informed business and investment decisions, and supporting progress toward a low-emissions, climate-resilient economy. We see the current regime as fundamental to ensuring prudential risk management and the on-going success of our companies and capital markets in a changing climate.

Postpone the review and act on better information

We recommend and support mentions in the discussion document, on letting the market and the XRB do their job first on differential reporting. **Look for and value the simplest solutions**. This avoids making problem statements on limited information, pre-maturely developing solutions, and making assumptions about their effectiveness. The first year of reporting has only just been, and the majority of the concern and impetus for the review seems to be based on one stakeholder's experience, or "Directors" with no explanation as to whom, and overall, is reliant on limited data points. The proper work done here will ultimately save paper-pushing and wasted tax-payer dollars on major legislative and regulation processes - when the solutions *are* simpler - and the precious time of stakeholders responding and dealing with undue change. This is when our energy could be focused on lifting our game.

Economic significance needs to drive your analysis of thresholds

We strongly recommend that if review is pursued now or postponed as we suggest, your analysis of appropriate thresholds, and options, gives due airtime and weighting to economic significance. The options other than status quo for all thresholds - that are based on blunt alignment with Australian thresholds - significantly reduces the value of funds under management covered by the reporting regime, and information available for investor decision making. This is noted by officials in the discussion document. The economic significance of participants in New Zealand is different to Australia, and not accounting for this could undermine the strength of our own capital markets and performance. This is major, and the effects need to be meaningfully captured and considered by the Minister.

We did some further analysis on Options 2 and 3 for listed equities and calculated **a $19 billion blindspot** in New Zealand's capital markets, **or a 14% reduction in coverage.** This is on track to undermine the efficient allocation of capital and intent of the Financial Markets Conduct Act 2013 (FMC Act) to promote fair, efficient and transparent capital markets. By diluting transparency and oversight on climate risks you simply undermine good risk management. Second, you may impact decarbonisation efforts in New Zealand's financial flows, and progress towards the Government's Target 9. The Government expects the market to do the heavy lifting and drive those reductions, so ideally you maintain a credible framework to do this properly i.e. climate risks are disclosed to investors so they make an informed choice. Nobody should be afraid, including the oil, gas, and minerals sector, to give their potential investors all relevant information. Nor should business cycles and investor preferences through those, change the information they demand and need to make good decisions. This is about doing good business and adhering to the FMC Act.

Avoid increasing transaction costs for the financial sector

Narrowing the CRD regime, significantly reducing economic coverage, or repealing GHG verification (rather than staging), invites increased transaction costs for the financial sector. The financial sector increasingly relies on climate-related disclosures to assess risk and opportunity. If smaller entities are excluded, or larger, their interactions with financiers and investors will become a game of "chase the missing data" or verifying it, driving up transaction costs across the board. Why reinvent the wheel when a unified, inclusive disclosure framework already provides what's needed.

Avoid creating sunk costs

Regime change inevitably means uncertainty for our businesses, can stall progress and risks sunk costs and investments. Even if average costs cited may be the case in Year 1, this is to be expected in the first year of any regime as there is always additional resourcing required to establish processes anew. Capability needs to be built, processes established. Reducing reporting requirements will render this upfront investment a sunk-cost and lose momentum.

We recommend ensuring on-going value from the up-front investment already made, by focusing on maintaining a credible and consistent CRD regime that builds international trust in our businesses and capital markets. International requirements and demand for trusted climate information will remain, and Australia introducing their own scheme the case-in-point.

Allow officials to do meaningful cost/benefit analysis that draws on all experiences

The Minister states that the first year of reporting shows costs are excessive, there are some significant problems with the regime, and that it is hampering the efficient operations of NZ businesses. The information to back this up however, is limited, often not referenced, and in our view does not warrant the proposed options. The cost analysis is patchy, misconstrued, is inherently variable in the market, and overall disproportionate to the changes proposed.

We advise the Minister to use this consultation and the experience of his officials, all stakeholders, and be open-minded if it indeed challenges his original views. We agree with his intent to be efficient and address any excessive costs, but we think there are more effective and simple ways to go about this than the options presented. Consider the benefits when our businesses are prepared for the impacts of climate change, and are managing and disclosing risk in their products and services. A good CRD regime means we have a diverse and attractive market for all types of investors i.e. including those who are looking for the climate savvy wins. We back evidence in the discussion document, and elsewhere, that the direction of travel for investors domestic and global—will continue to be transparent and credible climate disclosures. Investors are still monitoring climate impacts (insurance), and greenwashing (which diluting the regime and verification could exacerbate), and what Government policy and regulation does are important signals.

Again, climate risk is simply a subset of prudential risk management - it inherently should fit (and does) in BAU practice. Ensuring good governance practice and managing risk for the benefit of investors is part of the intent of the FMC Act. Climate change can create uncertainty on your financial objectives. This means it is a risk. Our clients recognise this, reflecting growing recognition in the domestic and international markets (Australia, Europe, Asia-Pacific). If the Minister believes otherwise, the burden of proof should be on the Minister to state why climate change **does not** present potential risks to finance and investments, and why its natural home is not the Act, and that managing risk is not important for fair, efficient, and transparent financial markets.

We recommend engaging the service industry on their pricing practices, and what is driving the costs.

We recommend rather than taking costs at face-value, looking more closely at the drivers of costs, and whether there are any market failures (price gouging), or trends (e.g. need to attract talent, inflation, economic recession), that could be worked on with the industry. This is a sensible approach before regime and legislation change. This is across all costs such as verification, legal etc.

Onepointfive has extensive experience preparing both mandatory and voluntary climate-related disclosures (CRDs) for a diverse range of clients, including entities with market capitalisations that are both above and below the proposed $550 million threshold. In all cases, the cost of preparing CRDs (for both FY24 and FY25) remained below: $150,000 (+GST) for CREs with a market cap above $550 million, and $80,000 (+GST) for CREs with a market cap below $550 million.

Falling behind the Australian regime and International Standards

We suggest making the point of comparison, first, from a fully implemented Australian threshold and a fully implemented New Zealand. This is a more honest and good faith approach, rather than focusing on the Australian thresholds in Year 1 of $550 million, which will reduce to 50 million anyway and capture most of our market. This gives a better lens on the efficacy of your proposals. It would also help avoid the situation where, by 2027, Australia's climate disclosure regime has overtaken New Zealand's in breadth and ambition, leaving us looking outdated and uncommitted. This means our entities may struggle to access capital or compete in international markets due to lack of comparable data.

If there is such a strong intent to align with Australia, then we should also be catching up to them when it comes to the public sector. They have done most of the work for us.

It is also unclear whether the major proposal to align with Australia will have the desired intent either, other than giving some stakeholders a "year off." The timing seems tight and risks the whole exercise being a waste of time: legislation wouldn't be done until 2026, at best, and reporting of Groups 1 and 2 in Australia starts in 2027. This would include Turner's Automotive Group, and then the rest follow with a market cap of $50 million. On the flipside, you can argue businesses could just be getting on with it and in 2027 have climate reporting credentials well-prepared for dual listing on the ASX. Why hobble the regime now, knowing we will have to inevitably catch up later.

Corporate disclosure is not just about ticking a box— as well as just good risk management for business, it's a direct link to achieving global climate goals. The Paris Agreement requires national governments to align policies with global adaptation and mitigation efforts, and corporate disclosures help act as the glue binding private sector action to these commitments. As highlighted at COP29 in Baku, the parties to the UNFCCC are actively developing 100 adaptation indicators that will set the standard for tracking climate resilience and preparedness. Corporate disclosure provides the essential connection between businesses and these international goals, enabling nations to report progress under the Paris Agreement.

Reducing the scope of NZ's disclosure regime risks creating a weak link in this chain. It hampers the ability of corporates to align with these indicators and, in turn, undermines New Zealand's ability to fulfil its Paris Agreement obligations.

Responses to discussion document questions

Chapter 2: Reporting Thresholds	
1	Do you have any information about the cost of reporting for listed issuers?

The discussion document uses limited examples (and often unsourced and unverified anecdotes) of excessive costs for climate reporting, and cites averages based on limited data - major legislative and/or regime change, and disruption to our financial markets, needs more than this.

In addition, for reasons discussed below, the discussion document is likely also conflating higher costs caused by variables such as service provider price gouging, and inefficient or underprepared implementation by CREs and their external service providers, with the CRD regime itself imposing a disproportionate set of obligations from a cost of compliance perspective

We recommend this or any future review is based on better evidence, and that the Minister supports officials with sufficient time and authorisation for improved options development and analysis - given how short this consultation is. This includes due and meaningful involvement of other officials and Ministers, for example, the Ministry for the Environment and the Minister for Climate Change. The omission is stark.

There are a number of ways to skin the policy evidence cat. The case the discussion document and media has cited could indeed be one of poor procurement and execution on the part of the CRE and/or their external advisors. And reflective of the still growing maturity and capability of participants and services within the regime.

Cost examples

Onepointfive has extensive experience preparing both mandatory and voluntary climate-related disclosures (CRDs) for a diverse range of clients, including entities with market capitalisations that are both above and below the proposed $550 million threshold. In all cases, the cost of preparing CRDs (for both FY24 and FY25) remained below: $150,000 (+GST) for CREs with a market cap above $550 million, and $80,000 (+GST) for CREs with a market cap below $550 million

To put the proportionality of the above costs into context, when preparing client CRDs for FY24, we employed a comparatively more granular and comprehensive approach (i.e. relative to most other FY24 CREs) to identifying and assessing

climate-related risks and opportunities across the multiple value chains each client CRE participates in. This entailed carrying out anew:

- Traditional (climate-related) risk and opportunity identification work,
- Development of entity level climate scenarios,
- Detailed assessment of impacts (caused by each material climate-related risk and opportunity identified) under each entity level climate scenario.
- Development and drafting of the CREs inaugural CRD report.

All clients have re-engaged us for FY25, with our scope of work covering any necessary updates to the above FY24 scope, as well as: Financial quantification of climate-related risks and opportunities; Transition planning; and Drafting support (i.e. associated with new CRD elements deferred in accordance with NZ CS2 adoption provisions in FY24).

We understand that, in addition to our fees, each client incurred additional costs associated with GHG verification and legal review. While we cannot speak on behalf of our clients, we understand that in certain instances GHG verification costs were excessive. This could be symptomatic of a market failure i.e. price gouging by the relevant verification service providers (e.g., charging approximately $100,000 for a task, which, if priced reasonably, should reasonably cost no more than $10,000).

We recommend engaging larger professional services firms on their pricing practices, and what is driving the costs. If unreasonable or excessive pricing is in place, look to use existing enforcement tools (e.g. under the Commerce Act, which prohibits misuse of market power, and other restrictive trade practices or the Fair Trading Act, which prohibits unfair practices in trade). This includes looking at pricing practices in the legal fees for Directors, as well as consultants.

Critically, most clients had already prepared GHG inventories for Scope 1 and 2 emissions for reasons unrelated to CRD compliance. We understand this to be the case for the vast majority of CREs. Accordingly, attributing the cost of this work to CRD compliance is inaccurate, especially going forward, as such information is increasingly required to access lending and insurance (i.e. thereby rendering it a general business expense). Costs are also variable over time and between companies, making reliance on averages as the discussion document does, challenging.

Let the market do it's thing

Climate risk management and reporting is a learning curve, and **we recommend postponing the review until this very new practice area has had a reasonable opportunity to learn and establish efficient and consistent processes and**

methods. This means organisations and the regime have more time (rather than just one year) to test and establish efficient processes, build capability, and innovate**,** and policy makers can gather more balanced and meaningful information on effectiveness and costs at the end of the day.

We anticipate that expenses now should reduce overtime, and benefits realised from return on investment, value creation and resilience for those companies who do it well. These points are made only briefly in the discussion document - with the overwhelming focus of the narrative being on 'cost' and 'burden' - and are due more airtime and inclusion in analysis. In our view:

1. Average costs cited may be the case in Year 1. However, this is to be expected in the first year of any regime as there is always additional resourcing required to establish processes anew, and why CRD legal review costs may have been a significant expense in FY24. Moving forward, we expect legal costs to be limited to reviewing CRD elements deferred to FY25 and FY26 under NZ CS2 adoption provisions (e.g. financial quantification and transition planning). We are not sure removing specific Director duties will have the desired effect to reduce costs overall, as this does not omit third-party action against the business. Cost will also vary depending on a Director, Board or business' risk appetite, and it could well be a symptom of poor pricing practices in the market alongside verification costs.

2. We anticipate year-to-year costs will reduce, as:
    a. The annual CRD preparation workload will shift from the large one-off task of establishing a CRE's climate related risk and opportunity profile, financial impacts, and transition plan from scratch, to maintaining and updating the above underlying foundation of work which underpins CRD reporting, and, generally speaking, will not change dramatically year-to-year in the vast majority of cases.
    b. Professional services providers assisting CRE's will also become more efficient, as they are also working through a steep learning curve that is reasonably expected to result in higher initial costs which then reduce over subsequent reporting cycles, as an established approach is settled on, refined and made more efficient (in order to remain competitive in the CRD service provision market).
    c. CRE's start to bring many of the more time intensive tasks associated with updating and maintaining proper climate-related disclosure records are brought in-house by CREs (i.e. as they

become more capable and competent at maintaining and updating such records which underpin CRD reporting).

Furthermore, on an ongoing basis costs are expected to be commensurate with an organisation's size (as the complexity and extent of any changes in their respective climate-related risk and opportunity profile will tend to be proportionate to the scale and complexity of the business). E.g. Turner's Automotive Group's business model is relatively simple and tends to not change materially year-on-year. If they manage preparation of CRD reporting competently and seek a competitive service price, the cost of updating and maintaining compliant CRD reporting shouldn't entail an additional cost that could be considered disproportionate.

3. If XRB rolls out two-tiered/differential reporting, whereby lower market cap CRE's are subject to shorter form disclosure requirements (a solution that was originally proposed to address cost proportionality complaints), this will alleviate any cost concerns. Moreover, it will limit the ability of professional service providers to engage in excessive pricing practices. This is essentially the type of approach that Australia has taken for "Group 3" reporting entities/CREs (as defined under the Australian equivalent to New Zealand's climate-related disclosure regime (as noted at paragraph 35 of MBIEs proposal).

4. The expected staging of Scope 3 GHG verification requirements will also help reduce annual compliance costs in the interim.

On point 3 above, we do not understand why the Minister would not wait for XRB's differential reporting process - XRB's work on solutions is mentioned a number of times in the discussion document i.e. para 24 regarding Scope 3, and para. 44 on the differential reporting standards. XRB can consult on viable solutions that do not warrant changing legislation, and, critically, does not compromise the regime's ability to achieve its legislative objectives, an outcome which MBIE's proposed changes would likely lead to.

Avoid creating sunk costs

We recommend ensuring on-going value from the up-front investment already made, by focusing on maintaining a credible and consistent CRD regime that builds international trust in our businesses and capital markets. International requirements and demand for trusted climate information will remain, and Australia introducing their own scheme the case-in-point.

	Reducing reporting thresholds now will render this upfront investment a sunk cost, and given this, may not be as impactful as the Minister may hope on cost proportionality in the regime. Noting the point above on XRB's differential reporting is yet to come as well. **Review your cost analysis** Cost averages based on limited data points is a blunt assessment that foreshadows a preference for blunt tools. We recommend not relying on averages without additional evidence. The AIRA survey and cost analysis, and context, in the discussion document looks to be misconstrued. Para. 30 states the 200k to 300k costs 'don't reflect the full cost of reporting because, from October 2024, assurance over part of the reports (the greenhouse gas emissions) is also required.' This does not make sense when looking at the AIRA sources. 74% of the respondents to the survey obtained limited assurance, which is typical for Scope 1, 2 and parts of their Scope 3 emissions. See the AIRA survey 'Review and Assurance Processes' Summary. In addition, only 38% responded to the survey. Expansion of Scope 3 reporting has already been discussed and addressed by the XRB. The AIRA's cover letter and response to XRB's questions to the assurance standards (that you cite) focuses on issues/concerns of quality of data if assurance standards were expanded - they don't mention 'significant cost' increases anywhere. They are advocating for a staged approach to expansion on Scope 3, and financial impacts, to help build capability. And reiterating our points on pricing practices earlier, we suggest taking a better look at what is driving consultancy and assurance costs to remain 'significant,' rather than just attributing it to the reporting regime.
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand?
	This problem statement has no source in the discussion document. We suggest listening to a wider group of stakeholders, including in this consultation, to make a sound judgement before spending public money on the legislative overhaul proposed that could have a negligible impact, or unintended consequences. We assume the Minster is aware that there are many existing barriers to companies listing on the NZX, and on-going commentary on that. These include the company's own preference, geopolitical instability, or financial wobbles due to economic recession. It could well be a fool's-errand with little political gain - and at the expense of undermining consistent progress, quality and lasting success of our

companies and NZ's capital markets - to assume that adjusting the Climate-Related Disclosure regime will see an uptick on the NZX against this wider picture.

Trans-Tasman alignment on reporting thresholds already exists

It is reasonable to assume that most, if not all, entities considering a listing in New Zealand or Australia are aware that, once Australia's staged CRD implementation is complete in 2027 (whereby Group 1-3 mandatory reporting obligations are in force), the mandatory climate reporting thresholds in both jurisdictions will be substantively similar. As noted in MBIE's consultation document (page 16, Table 2), when Australia's CRD framework is fully implemented, the "New Zealand approximate market capitalisation equivalent" threshold will be $50 million—$10 million lower than the current New Zealand threshold. Thus, there is no material difference between the listed issuer thresholds in Australia and New Zealand, let alone one that has any prospect of influencing which jurisdiction an entity chooses to list in.

The notion that a company with a market capitalisation below $550 million would choose to list in Australia instead of New Zealand solely to avoid one additional year of CRD obligations (before Group 2 and 3 reporting requirements come into effect in 2026 and 2027) is highly implausible. Such a decision would require prioritising a short-term regulatory deferral over broader strategic listing considerations, including market access, investor base, trading liquidity, and regulatory stability—factors that almost always carry far greater weight in listing decisions

General cost considerations

If a company is still deterred from listing on the NZX due to CRD compliance costs—even after factoring in the following cost reductions—it was likely never financially ready to list in the first place:

- The expected repeal of GHG verification requirements, which often account for a significant share of total annual CRD compliance costs.
- XRB's proposed differential reporting, easing the burden for smaller entities.
- Greater efficiency and proficiency among CREs and professional service providers.
- A shift from upfront capability-building to routine updates, as CRD processes mature and focus on maintaining records rather than developing disclosures from scratch.

3	When considering the listed issuer reporting threshold, which of the three options do you prefer, and why?

Option 1, Status Quo. For reasons stated in our covernote and below. We do not disagree with a review of the thresholds entirely, these are good to check, but using more information and analysis that includes consideration of New Zealand's market structure i.e. economic significance.

On aligning with Australia and setting thresholds

As noted at page 2 above, once Australia's staged CRD implementation is complete in 2027 (whereby Group 1-3 mandatory reporting obligations are in force), the mandatory climate reporting thresholds in both jurisdictions will be substantively similar.

More importantly however, what constitutes the appropriate CRE threshold should be set based on what achieves greatest alignment with the legislative objectives underpinning the CRD regime, rather than an arbitrary desire to align with the Australian equivalent's CRE thresholds (i.e. under the Australian Sustainability Reporting Standards AASB S2), which are also underpinned by substantially similar/analogous legislative purpose and objectives.[1] Namely:

1. ensure that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions;
2. help climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues; and
3. lead to more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy.

The options analysis in the discussion document **omits economic significance** as a consideration for the thresholds, here and overall, which leaves much to be desired. This was the original approach in Climate-related financial disclosures Cabinet paper here,Tables 1-3, and is

If the threshold is set at a level that excludes a material proportion of the capital market (equities and debt, both publicly listed and private) then it fails on the third keystone/core purpose immediately and undermines the first and second significantly. This is also why the 'thinking at the time' to set the $60 million threshold was more than stated in para 28. 'maximum market capitalisation

[1] AASB S2 is based on the International Sustainability Standards Board's (ISSB) IFRS S2 Climate-related Disclosures, which itself builds upon the TCFD framework. Similarly, New Zealand's Aotearoa Climate Disclosure Standards (NZ CS 1-3) together with the Financial Markets Conduct Act Part 7A amendments are also predicated on the same three core underlying objectives stated above.

permitted for an issuer to join Catalist Markets Limited.' The thinking, critically, was also:

1. As the underlying players of the financial markets, t**he analysis of other players further up the investment chain is reliant on as many companies disclosing as possible**. P. 11 Climate-related financial disclosures Cabinet paper
2. Learning-by-doing will be an essential part of improving the quality of disclosures over time. Delaying implementation will delay the benefits of disclosing and will undermine the effectiveness of reporting higher up the investment chain. P. 22 Regulatory Impact Statement July 2020

This is why **you risk creating transaction costs** for players further up the investment chain, who end up chasing the same climate-related risk and GHG data and information in circumstances where it is also often missing, of poor quality, and unlikely to be sufficiently consistent and comparable in the absence of a reporting standard. This issue is stated in para 63 and would be exacerbated in our view, that "Investment scheme managers have told us that there needs to be an improvement in data from investee entities in order to improve the reliability of the information in the scheme reports."

We caution against any thinking or assumptions that the solution here is to simply lift the investment scheme managers' threshold to report to $5bn, referring to para. 69 of the discussion document. Effectively meaning they don't have to get the information in the first place. This entirely overlooks the undermining effects this will have on the credibility, competitiveness with the Australian regime and efficiency of our domestic market.

These additional points mean, overall, that the appropriate threshold should be sensibly grounded in the characteristics of New Zealand's domestic capital markets i.e. what is the total market coverage, and, in turn, the economic significance of the intended impacts that the CRD regime achieves. For this reason, we caution against a blunt alignment to the Australian thresholds. Australia is a much larger capital market hence being able to set higher thresholds without negating the regimes ability to achieve the above legislative objectives, particularly with the importance of listed issuers noted above.

Furthermore, unlike New Zealand, the Australian CRD regime does not limit mandatory reporting obligations to listed equity and debt security issuers. Australian reporting thresholds are based on annual revenue, asset values and employee numbers, thereby requiring both listed and non-listed entities that meet the relevant thresholds to comply. As a result, the Australian regime provides substantially greater CRD reporting cover across its domestic capital market

compared to New Zealand. On this basis, any effort to align with Australia ought to entail the extension of the CRD regime, rather than the proposed reduction of its coverage.

Our analysis of the impacts from your options

Our analysis suggests the options presented for amending listed issuer CRD reporting thresholds will result in a significant portion of New Zealand's capital market being omitted, thereby undermining the integrity of the regime, and, in particular, its ability to achieve the primary objective of ensuring "more efficient allocation of capital, and help smooth the transition to a more sustainable, low emissions economy." This is of great concern, given that ensuring the efficient redirection of capital away from carbon intensive activities, and towards those that are low carbon and have a greater chance of remaining resilient to the physical and transition effects of climate change, is the primarily lever for effecting meaningful action against the impacts of climate change at scale.

A $19 billion blindspot in our listed equity capital market

The proposals would significantly reduce coverage by 14% and leave investors in the NZ capital markets with a $19 billion blindspot. If our numbers are correct, we argue that this would misalign New Zealand's regime, and its integrity, with Australia, not bring us 'closer' to it. The types of business this omits is also important to grasp if you are to adequately consider the risks.

At present, total market cap of the NZX equities list is circa $185 billion. The current $60million threshold provides 90% CRD coverage (i.e. CRD mandatory reporting covers $164.5 billion). In detail, the proposed revised threshold of $550million will:

1. Reduce this to $146 billion (i.e. a 14% reduction in CRD coverage of public listed entities) leaving a circa $19 billion blind spot that significantly undermines achievement of the CRD legislative objectives above.
2. Exclude from CRD reporting cover:

    a. **26 Investment Funds,** 1 an outcome which detracts significantly from achieving the FMCA/CRD's legislative purpose of "ensuring climate is routinely considered in investment decisions" and the efficient allocation of capital in a manner that will help smooth New Zealand's transition.
    b. **3 Marine Ports,** 2 responsible for heavy transport and the conveyance of imports, exports and transhipping, activities that are responsible for a significant proportion of transport emissions.

c. **6 Transport** and travel-related companies, which operate in or in the service of the second most carbon intensive industry (transport, which includes air transport).
d. **10 primary sector and primary sector-related companies,** half of which participate in or service the dairy and meat production industries, which are New Zealand's largest contributors to climate change.
e. **15 construction and manufacturing companies,** which operate in the third most carbon intensive sectors.
f. **7 of the largest retailers and distributors,** which sell and distribute products responsible for a large volume of embodied emissions and are responsible for significant volumes of hard to abate heavy transport and freight emissions.
g. **NZX itself**, which is a key participant in the allocation of capital in New Zealand, and, therefore, an entity that ought to remain a CRE if the integrity of the Aotearoa Climate Related Disclosure regime is to remain aligned with its core purpose.

A $22.3 billion blindspot in our listed debt securities capital market

At the time of preparing this submission the total market cap of the NZX listed debt securities is circa $58.9 billion. Importantly, the current $60million CRE threshold provides almost 100% CRD coverage of this market, as at the time of drafting a total of 3 listed debt securities totalling 123.4 million in value do not exceed the this threshold. If the proposed $550million threshold is also adopted for debt securities, it will (based on current listings):

1. reduce the debt security capital market's CRD coverage from almost $58.9 billion down to $36.68 billion leaving a circa $22.29 billion blind spot (i.e. 37.8% reduction), which also significantly undermines the CRD legislative purpose and objectives above.
2. Exclude from CRD reporting:
    a. 5.8 billion of debt securities issued by Utilities, which are a key component of New Zealand's decarbonisation strategy, and heavily exposed to physical and transition risks.
    b. 2.8 billion of debt securities issued by Real Estate and Aged Care providers, which are responsible for a significant proportion of total annual emissions associated with construction activity.
    c. 4.6 billion of debt securities issued by Materials, Industrials and Energy sector participants, which as noted above, are the third largest source of total annual emissions.
    d. 7.1 billion of debt securities issued by the Financial sector, specifically banks, insurers, asset managers, and others.

	Total public capital markets blindspot of 41.3 billion Focus on the $550million threshold and without due analysis of the economic significance, therefore leaves a total public/listed capital markets blindspot (i.e. across all listed equities and debt securities) of $41.3 billion, in exchange for disproportionately small compliance cost saving. Moreover, for reasons noted at page 13 above, any costs saved on compliance are likely to be eroded by higher borrowing, investment and insurance transactional costs, as the same data provided in CRD reports in a consistent, comparable and comparatively more efficient manner, is increasingly demanded by lenders, investors and insurers in any case. You can find details in **Appendix 1 (in the Excel document attached separately).** *Cost considerations* So far as the cost of compliance is concerned, we refer back to the points made in relation to Question 1 and 2 above. On this basis, we also strongly advocate for Option 1, Status Quo.
4	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
	We suggest the Minister asks himself this question, in a closer working relationship with the Minister for Climate Change, and **we recommend he considers postponing a review of the CRD**. In our view, the review is premature to the XRB's planned work and consultation on differential reporting. The Minister and his officials would have more information, and representative at that, to understand and/or confirm the Minister's view of the problems, and whether his solutions will indeed be the most cost-effective and efficient. This would also canvas and help avoid any unintended consequences, including any near and long-term inefficiencies and lost opportunities for New Zealand's capital market, or ending up behind the eight-ball with Australia.
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?

	See above.
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 highly suspect Turner's Automotive Group will not. Others view it as an investment in strategy and capability, and ensuring future value creation and resilience. And the pressures to will not go away, and reiterating points made by officials in paras. 54 and 73: ● Over 80% of New Zealand's exports by value are going to markets that have mandatory ESG reporting in force or proposed. ● A recent GlobeScan survey of 5,000 retail investors in 10 countries also reports that 86 percent of retail investors somewhat or strongly support investment funds providing information on the impact of investments on climate change As a further indication, one of our most successful investment companies, Morrison, hired former Climate Change Minister James Shaw as an Operating Partner. Noting too that a regime change doesn't mean that climate-related risks and opportunities go away, and will more likely impact companies who believe otherwise. Risk can still materialise even when you do not look at them.
7	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime?
	See our covernote and points in Q3 on transaction costs i.e. transparent, consistent and quality reporting for investors. It also has the advantages of ensuring listed issuers can support the purposes of the FMC Act, particularly 3(b) promote and facilitate the development of fair, efficient, and transparent financial markets. We note the overall intent throughout the FMC Act is to ensure companies identify, properly manage and govern, disclose and reduce any significant risk to investors from their products and service offerings. Climate change can create uncertainty on your financial objectives. This means it is a risk. The risk will continue to materialise whether the regime exists or not - regulation means we are preparing

	and talking about that risk in the same way, growing capability, and are taking it seriously.
8	Do you have information about the cost of reporting for investment scheme managers?
	We have assisted a relatively complex asset manager with the preparation of their FY24 mandatory climate related disclosures. While we are unable to disclose the cost publicly we are able to share a cost range with MBIE on a confidential basis. Accordingly, based on our own experience, we are strongly of the view that provided an asset manager has access to sufficiently knowledgeable and experienced advisors and employs a fit for purpose process and methods for preparing CRD reports, costs can and should be proportionate. Depending on the size, structure, complexity and nature of the assets under management, the cost of CRD reporting can be kept to a manageable and proportionate level, especially over the longer term, once asset manager CREs have navigated the learning curve of the first three years (i.e. whereby capability building across all CRD requirements entails a number of one-off initial costs). Again, it is important to emphasis the risk of conflating cost implications arising from inadequate CRD processes and methods on the part of the relevant CRE's and/or their advisors, with the true cost of CRD compliance if a fit-for-purpose approach is employed.
9	Do you have information about consumers being charged increased fees due to the cost of climate reporting?
	No.
10	When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why?
	Option 1, Status Quo. For reasons stated in our covernote and refer to our answer in Q3. We note your analysis in para 69, Table 6, on the value impacts from lifting

	the investment scheme managers threshold to $5bn. In particular, you advise that the total CRD market coverage drops from $185 billion to: ● $150bn if the threshold is amended to $5 billion per manager (total assets under management) - Option 2; and ● $90bn if the threshold is amended to $5 billion per scheme - Option 3, In line with the analysis conducted above in relation to public capital markets CRD coverage, Option 2 has the effect of creating a $35 billion CRD blindspot, and Option 3 creates a $95 billion blindspot. This impact should come up front and centre next to the Ministers assumptions on costs. It would be hard to argue that either of those would not significantly 'gut' the regime's integrity and New Zealand's climate risk practice, on top of the public capital market (i.e. listed equity and debt security) $87.3 billion blindspot created by adopting a $550 million CRD reporting threshold. In our view, it will impact the likelihood of the CRD regime achieving its purpose of supporting the transition to a low emissions economy and second, puts New Zealand on the back-foot with Australia and the on-going global demand for climate reporting noted in para. 73. The resulting vacuum of data will likely operate to undermine trust in our domestic markets and our competitiveness, and make it difficult for our companies to raise capital, especially as offshore lenders, funds and underwriters continue to place increasing emphasis on reducing financed emissions and the climate resilience of borrowers and investees. Adding to officials' points here: **The direction of travel for investors—domestic and global—will continue to be transparent and credible climate disclosures.** This is despite the current business cycle that can focus institutional investors on short-term gain, and ESG political-backlash in the United States. Because investor decisions go in cycles, doesn't mean the information they base their decisions on should change or not be made available. Investors are still monitoring climate impacts (insurance), and greenwashing (which diluting the regime and verification could exacerbate), and what Government policy and regulation does are important signals. You can get this information and insight from EY's Global Institutional Investor Survey 2024. **The Minister needs to meaningfully consider the message this sends: that NZ isn't serious about climate risk and equipping investors with the insights they demand.**
11	If the XRB introduced differential reporting, would this impact on your choice of preferred option?

	Repeated question. See above. As noted above, differential reporting is a sensible and proportional adjustment to the current regulatory settings.
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'd wait to see what they say through consultation with the XRB.
13	When considering the location of the thresholds, which Option do you prefer and why?
	Option 1, Status Quo for now. For reasons stated in our covernote. See our answer to Q3. And on-going mention of XRB's differential reporting consultation.
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?
	Repeating our point earlier - proposing that the CRD sits in a separate Act may not have what we surmise is the desired effect of the exercise: make climate reporting - and lack there of - on finance and investment products, untouchable by existing regulations and expectations of the FMC Act. Or indeed, it looks to potentially reduce the role of the XRB(?) - their role would need to be re-litigated if you pursued separate legislation/statutory obligations, given it's baked in the FMC Act. We suggest more legal advice before such measures, and on any assumptions that Fair Dealing expectations under the FMC Act would not apply to such a large portion of New Zealand's capital markets that you would be omitting. Again, just because climate risk has 'climate' in-front of it does not render it separate to other risks that can materialise, or mean accountability is not sought or deserved for any perceived negligence. We would also suggest that the burden-of-proof should be on the Minister, contrary to growing recognition in the domestic and international markets

(Australia, Europe, Asia-Pacific), why climate change **does not** present potential risks to finance and investments.

Second, why the FMC Act, which has the intent of transparency, and inherently is managing risk to investors, and regulating for negligence, **is not** the most efficient vehicle and framework for climate reporting.

Third, what the impacts are for our companies, investors, in creating uncertainty rather than getting on with it, and introducing another Act to regulate and/or separate climate reporting and inherently, understanding of risk, from the Board room and our capital markets. Any prevailing attitude that climate risk should not be treated this way, that it is somehow separate from every other risk that could impact the success of a venture or fund, will run an increasingly dangerous and litigious game in the face of mounting physical impacts taking place on our doorstep and abroad. **The answer is not to 'gut' the regime of accountability for the consequences.**

Embarking on such a paper-pushing exercise for public servants, companies, investors - while bringing business to the lawyers - is at the expense of focusing our collective resources on continuing to lift our game.

Ultimately, as climate-related risks and opportunities loom larger and have an increasingly significant impact on the financial position and performance of CREs over time, the accuracy and completeness of any statements made in CRD reporting will still be subject to FMC Act fair dealing obligations irrespective of whether the CRD regime is housed in the FMC Act or elsewhere. Moreover, fragmenting the current provisions of the FMC Act across multiple legislative instruments invites further additional compliance costs and associated complications for both reporting entities and government agencies tasked with oversight and enforcement (i.e. it is likely to generate cost issues which are the main subject of MBIEs current consultation document).

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?
	"Effective risk management sits at the heart of good governance." Further, from the same source, "A board plays a vital role in ensuring a company takes the

	necessary precautions when dealing with risk, while also maintaining the pursuit for adding value to the company." Dealing with climate risk is part of this prudential risk management - it shouldn't have excessive or additional liability when compared to other types of risk they typically manage. The issues can probably be addressed more simply, and like elsewhere, look at the service market that are driving costs, rather than pulling climate risk (that can exacerbate existing risk Board's may already be managing e.g. natural hazards) out of the heart of governance and accountability for performance. The business may also still be liable. It will still cost money if the Directors do not perform, but in this instance, you do not make them accountable for their poor performance. Even when it undermines the existing duties and responsibilities they have, that is, ensuring the company's management is dealing with risk well. We do not think the argument that climate risk is different, and in the future, and not retrospective, is justification for a change (noting emissions reporting *is* retrospective, like finances). It is justification for action by the Board to have oversight over processes, improvements, and best practice - rather than passing the buck to the company.
16	Do you have another proposal to amend the director liability settings? If so, please provide details.
	No.
17	If the director liability settings are amended do you think that will impact on investor trust in the climate statements?
	Yes. There is no guaranteed oversight of prudential risk management related to climate or accountability with the Board.
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?
	N/A

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?
	This is a significant and complex question. Any further pursuit of this would need meaningful consideration and consultation with XRB and all relevant stakeholders.
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)
	As above.
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?
	Yes. In conjunction with some level of climate reporting by the New Zealand subsidiaries. Given that internationally assessed risk and opportunities doesn't automatically apply to our domestic circumstances.
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?
	Yes. In conjunction with some level of climate reporting by the New Zealand subsidiaries. Given that internationally assessed risk and opportunities doesn't automatically apply to our domestic circumstances.

Final comments	
23	Please use this question to provide any further information you would like that has not been covered in the other questions.
	We suggest officials and the Minister give more meaningful consideration to the benefits of climate risk management, and investing in it. It is not simply 'expensive emissions reporting,' a view that is reflected in para 48 of the discussion document: "It is not easy to determine what the "right" level of reporting is so that progress is made towards a low-emissions future without causing undue burden to businesses. We are interested in your views about this." First the 'right' level of reporting is to international standards, and the vagaries of New Zealand, while not easy, are being worked through by the XRB and others, such as Scope 3/Value chain. Emissions reporting can also lead to cost reductions i.e. energy efficiency, better strategic management of assets etc. And further as we have reiterated, engage the industry on pricing practices and drivers, and any market failures - we think there is more to the problem and this should be done before attributing it all to the reporting requirements, and sending us down legislative change. Second, climate reporting is about how businesses are managing both transition *and* physical risk, and many of our clients also recognise this. The banking and insurance sector are well aware of physical risk with the issues of managed retreat. Understanding and dealing with physical risk is not a burden but a necessity for well-functioning markets. Los Angeles fires should be case in point, and our experience through Cyclone Gabrielle. Bring this holistic understanding of what climate risk management that the CRD regime instills, to the next round of your policy development, and analysis of the benefits as well as costs. The Minister should engage with all sides of the coin.

APPENDIX 1

Refer to Excel Document supplied separately