Submission on discussion document:

Submission on the 'Adjustments to the climate-related disclosure regime' Discussion Document - RBNZ

Your name and organisation

Name	s 9(2)(a) [redacted]
Date	14 February 2025
Organisation (if applicable)	Reserve Bank of New Zealand
Contact details	s 9(2)(a) [redacted]

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s 9(2)(h) [redacted]

s 9(2)(g)(i) [redacted]

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?
	No.
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand?
	Most entities that we prudentially regulate are not listed. As such, we do not have sufficient insight to comment on whether the thresholds are a barrier to listing in New Zealand. We comment on director liability settings separately, later in this submission.
3	When considering the listed issuer reporting threshold, which of the three options do you prefer, and why?
	We prefer Option 1. We believe the existing thresholds, relative to Options 2 and 3, will result in best meeting demand for information and enabling investors and other stakeholders to assess the merits of how listed issuers are considering climate-related risks and opportunities. In turn, this should help build trust and knowledge in the New Zealand market and support investment flows to enable the transition towards a low-emissions, climate resilient economy. It should also continue to encourage the embedding of climate-related risks and opportunities within more climate reporting entities' (CREs') business models and strategies, which could provide significant financial benefits to the listed issuers in the long-run. A smoother and more effective transition is highly likely to result in greater financial and price stability than a disorderly or non-existent transition. In addition, we note from the discussion document that any adjustments to the threshold would take time; by early 2026, CREs will have completed at least two years of mandatory disclosures and be well into year three. By that stage, CREs' and third parties' climate-related disclosure capabilities will have increased, and the ongoing costs of compliance should begin to reduce/plateau as the discussion document highlights. In any case, we believe the benefits of a lower threshold described above outweigh compliance costs of the magnitude described in the discussion document. We also note a lower threshold is more consistent with the 'credible markets support the climate transition' pillar of the ***government's five-pillar climate strategy*** s 9(2)(h) [redacted] s 9(2)(h) while the total number of CREs in scope of the New Zealand regime remains considerably lower than the current end-state in Australia.
4	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
	No; we would still prefer Option 1.
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?
	No.

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?
	Some listed issuers may still choose to report on a voluntary basis, but the information they provide could carry less authority for primary users unless the issuer is able to demonstrate that they have met all requirements in the standards. It is also likely that some issuers would not voluntarily report based on the information provided in the discussion document, and therefore the total amount of information available to the market would reduce.
7	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime?
	Inclusion of listed issuers in the regime helps promote the main purposes of the FMC Act and encourages listed issuers to fully identify, monitor and manage their climate-related risks and opportunities. This in turn should lead to more informed decision-making and greater progress towards a low-emissions, climate-resilient economy. The main disadvantage of the regime, as highlighted in the discussion document, appears to be the compliance costs associated with meeting the disclosure standards. However, as aforementioned, we believe the advantages of inclusion of listed issuers significantly outweigh the costs.
8	Do you have information about the cost of reporting for investment scheme managers?
	No.
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?
	We prefer Option 1, for the same reasons described in question 3.
11	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
	No; we would still prefer Option 1.
12	Do you think that a different reporting threshold for investment scheme managers should be considered (i.e., not one of the options above) and, if so, why?
	No.
13	When considering the location of the thresholds, which Option do you prefer and why?
	We prefer Option 1. Maintaining the location of reporting thresholds in the FMC Act provides greater long-term certainty for CREs and primary users, which in turn helps facilitate settings that better enable longer term flows of sustainable finance. Climate change is a cumulative long-term challenge that will not be effectively addressed by stop-start finance flows.
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?

	No comment.
Chapter 3: Climate reporting entity and director liability settings	
15	When considering the director liability settings, which of the four options do you prefer, and why?
	We prefer Option 2. We note ***the XRB guidance accompanying NZ CS*** refers in turn to the ***guidance developed by the World Economic Forum (WEF) for climate-related governance***. The WEF guidance has eight guiding principles for effective climate governance for governance bodies (with supporting implementation actions), including accountability. The WEF guiding principles are consistent with the key principles for all governance bodies articulated in the ***Reserve Bank and FMA Governance Thematic review***, published in September 2023, and our ***guidance for prudentially regulated entities on managing climate-related risks***, published in March 2024. There are arguments which support the existence of director liability in ensuring appropriate accountability for climate-related disclosures. However, we recognise the reasons outlined in paragraph 102 of the discussion document make a strong case for removing the director liability for climate-related disclosures, particularly given the forward-looking and uncertain nature of some of the information to be disclosed. In order for the objectives of the FMC Act to be met, and with their subsequent positive implications for the transition and achieving our objectives, we need the information provided within climate statements to be as detailed, useful and able to facilitate decision-making as possible, which could be better facilitated by removing the director liabilities. We think there are still sufficient incentives for directors to adequately oversee the consideration of climate-related risks and opportunities and uphold appropriate climate-related disclosures via the governance-related standards within the disclosure regime and the incentives for entities to best identify, monitor and manage climate-related opportunities to their business models and strategies. We prefer Option 2 over Option 3 because we consider misleading and deceptive conduct, aiding and abetting an unsubstantiated representation and other criminal offences as significantly against principles for good governance, and behaviour not fitting of directors of CREs. There is an element of deliberate action in these offences which suggests that any director making good-faith efforts to ensure their CRE produces compliant climate statements is unlikely to feel the need for the extra protection Option 3 would give them; Option 2 should be sufficient for them to feel much more comfortable signing off on climate statements that include forward-looking and uncertain information. We prefer Option 2 over Option 4 for the reasons described in the discussion document, with the long-term certainty helping facilitate appropriate market settings. We are also keen that CREs remain liable for failure to prepare climate statements in accordance with the standards.
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?

	We think the impact is uncertain, but investor trust levels may vary depending on the response of individual CREs. The changes could increase investor trust if they result in more detailed, useful information within climate statements. On the other hand, trust could reduce if investors believe directors are less engaged with the statements. Any downsides could be mitigated by existing guardrails such as the assurance required on parts of the climate statements, noting the current assurance requirements are less extensive than for other climate-related disclosure regimes like Australia. A CRE as a corporate entity will still be liable for penalties for failing to comply with climate standards, and this should still provide some incentive on its directors to take climate reporting obligations seriously.
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?
	No comment.
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?
	No comment.
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)
	No comment.
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 think that there is value in creating a repository for this information in New Zealand to facilitate easy access. However, we suggest a separate webpage (per Q22) would be a better way of doing this to avoid confusion about the status of the climate statements as identified in the discussion document.
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 addition to multinational subsidiaries, we also encourage multinational branches to do the same thing with their parent company climate statements. We note that the FMA has provided several NZ branches with exemptions from the climate-related disclosures regime, and the preparation of the group statements is frequently cited as one of the key reasons for granting the exemption (e.g. ***HSBC***, ***Citibank***, ***JP Morgan***).
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 are providing this submission for the following reasons:

- Climate change may pose material risks to the achievement of each of our three objectives under the Reserve Bank of New Zealand Act (2021), including our financial stability objective. Many of the entities that we prudentially regulate and supervise to help achieve our financial stability objective are also climate reporting entities, with climate-related disclosures helping promote the identification, monitoring and management of climate-related risks.
- As a member of the Council of Financial Regulators, we seek to co-operate and co-ordinate with our fellow members and partners to support effective and responsive regulation of the financial system in New Zealand.

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