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

Your name and organisation

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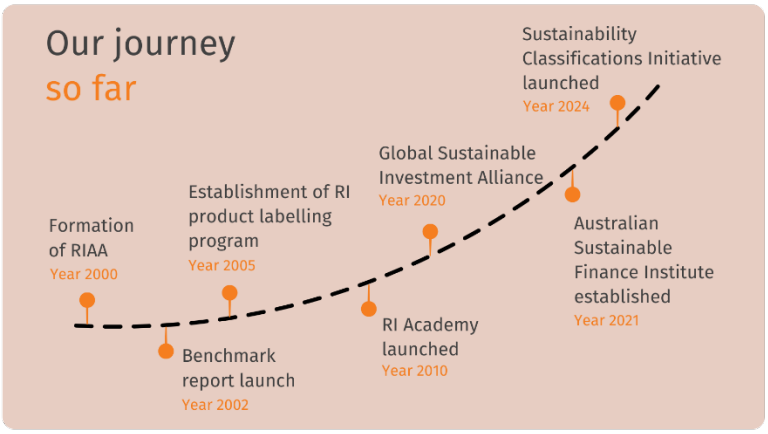
Responses to discussion document questions

Please enter your responses in the space provided below each question.

About RIAA

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and Aotearoa New Zealand. It is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.



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largest super funds by no. members / asset under management in Australia are RIAA members

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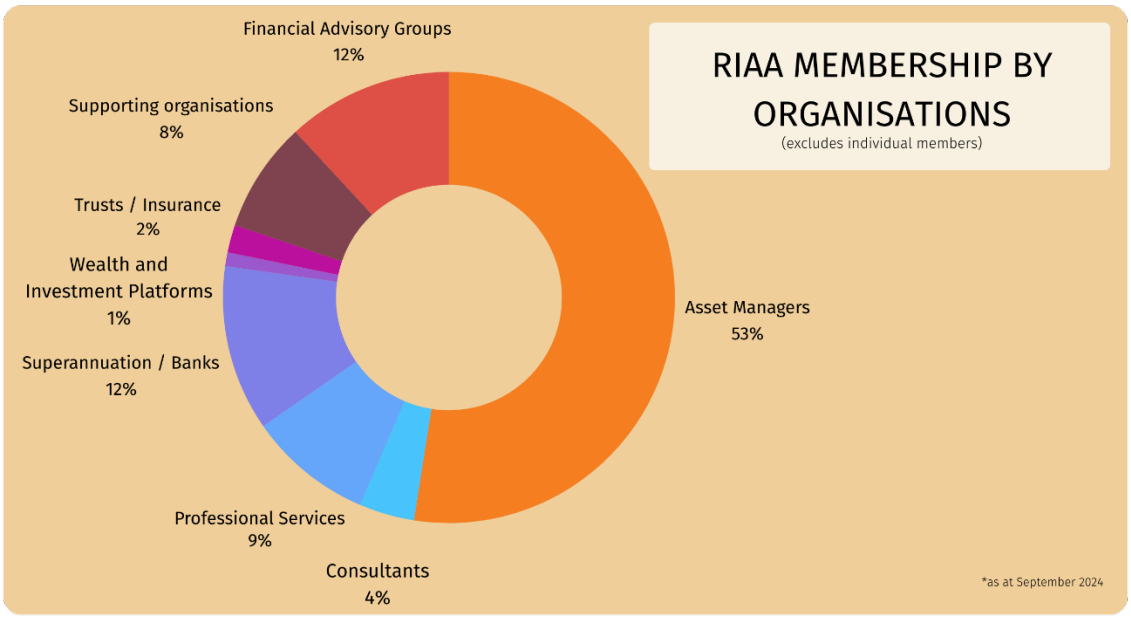
largest KiwiSaver Funds by no. members are RIAA certified products



Chapter 2: Reporting Thresholds	
1	Do you have any information about the cost of reporting for listed issuers? **1.** RIAA does not have information on the cost of reporting for listed issuers. **2.** RIAA notes however that the discussion document focuses heavily on the cost of complying with the requirements of the climate-related disclosure regime (CRD Regime, or Regime) without sufficient attention to the cost of inaction on climate risk assessment and reporting. Any changes to the CRD Regime should consider the significant cost of inaction: • The Regime results in companies that are more resilient and prepared for the impact of climate change, contributing to the overall strength of the economy. The objective of the Regime is not just a reporting exercise to have emissions data – it is about ensuring NZ businesses are prepared for the risks of climate change and builds capability. Changes to the thresholds to reduce the number of companies under the Regime run the risk of companies foregoing appropriate preparation. This has the potential to create a larger systemic issue for New Zealand. • The Regime competitively positions New Zealand for the opportunities of a world transitioning to net-zero and makes the NZ market a more attractive place to invest. This allows for both NZ businesses to participate in global markets as well as allow NZ to be a viable destination for the finite capital flowing to jurisdictions with strong and transparent regulations to support the transition. • Consumers need to know the risks to their investments and require with reliable information through this Regime to make properly informed investment decisions. **3.** In addition, RIAA notes that the cost of reporting is expected to come down as the Regime forms part of business-as-usual for organisations. Much of the cost borne by reporting entities in the first year of reporting is due to the gap in systems and data to appropriately address the risks and reporting requirements to meet the objectives of the Regime. This early-stage investment was essential and should set up climate-reporting entities (CREs) for less costly and more effective reporting moving forward. Indeed, this demonstrates the positive impact the Regime has made on businesses building capability and systems through the process of becoming compliant with the Regime. Diluting the impact of the Regime runs the risk of negating this investment and unwinding progress.
2	Do you consider that the listed issuer thresholds (and director liability settings) are a barrier to listing in New Zealand? **4.** RIAA is not aware of, nor have seen any evidence identifying, any instances where the listed issuer thresholds (and director liability settings) of the CRD Regime constituted a barrier to list on the New Zealand Stock Exchange (NZX). Given the upcoming staged introduction of the Australian climate-related financial reporting regime (AU Regime) – which goes beyond the NZ thresholds to include unlisted public and large private companies (among other inclusions) – a prospective listed issuer would soon be required to report within either jurisdiction. In addition, due to the capital required and the cost of listing (and remaining listed) on the ASX, RIAA does not consider the CRD Regime itself to be a major factor.

5. However, RIAA is concerned about the possibility of regulatory arbitrage due to the limited nature of the current structure (see paragraph 16). In addition, the focus on equity markets in the Discussion Document does not consider the suitability of CRD Regime for other types of instruments, such as debt.

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

3

6. RIAA is concerned about the overall approach taken in the Discussion Document to consider possible changes to the CRD Regime.

Background

7. RIAA applauds the NZ Government's ongoing support of the CRD Regime and the commitment to ensure the Regime is fit-for-purpose and meets its objectives:

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

8. The ultimate aim of the climate standards is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions climate-resilient future.[1] RIAA emphasises that this allocation of capital relates to those within businesses as well as more broadly from institutional investors.

9. RIAA generally supports aligning the CRD Regime with both Australia and global standards. However, to maintain the integrity and credibility of the CRD Regime, any changes (legislative or otherwise) must remain relative to the NZ market – that is, the CRD Regime should be capturing entities which are of a size and significance to the objectives of the Regime for the NZ economy.

10. It is important to recognise New Zealand's leadership as the first jurisdiction to introduce a mandatory CRD Regime which demonstrated foresight in meeting the challenges posed by climate change. Being an early-mover competitively positioned the NZ market within a globalised marketplace which is becoming increasingly focused on the risks and opportunities of transitioning to a net-zero economy.

11. It is especially important to highlight that the NZ Regime was introduced prior to the International Sustainability Standards Board (ISSB) issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, from which subsequent regimes including Australia have benefited.

12. Notwithstanding, RIAA agrees that there have been challenges with the CRD Regime as mentioned within the Discussion Document. These challenges require considered evidence-based policy solutions. Our recommendations are as follows:

- bring forward the XRB post-implementation review of the CRD framework currently planned to commence by December 2025;
- FMA to provide strong and ongoing guidance on how to meet the obligations of the CRD Regime, including how existing legal

[1] Refer NZ CS 1 paragraph 2, NZ CS 2 paragraph 2, NZ CS 3 paragraph 2.

obligations and principles would apply to the Regime (see paragraph 39);
- industry-led tools supported by the government to streamline reporting which use the lessons learnt from the first years' of reporting; and
- policy certainty and simplicity to prevent unclear timeline implications and disconnected stop-start reporting from the proposed changes (see paragraphs 16 and 47).

Listed issuer thresholds

13. The Minister in the Discussion Document recognises that the NZ Regime is "not well-aligned with Australia. New Zealand was among the first countries in the world to introduce climate reporting but now that Australia has its own regime, [the Minister thinks] we should be better aligned." However, RIAA considers that none of the options in Table 3 would properly achieve better alignment with the AU Regime and is further concerned that the proposed reforms do not address existing issues with the application of the CRD Regime.

14. RIAA submits that efforts should be made to ensure that the NZ and AU climate-reporting regimes are consistent and but not necessarily identical.

15. Currently the NZ Regime applies to approximately 173 listed issuers, registered banks, licenced insurers, credit unions, building societies, and managed investment scheme (MIS) managers. When compared to the AU Regime the Australian Securities and Investments Commission (ASIC) estimates ***more than 6,000 entities*** will be required to file climate-related disclosures under AASB S2 by 2030. The coverage is much more extensive than the NZ Regime, and will include:
- large proprietary (i.e. private) companies;
- listed companies that trigger size thresholds;
- National Greenhouse and Energy Reporting (NGER) reporting entities; and
- superannuation and MIS schemes with AUD5 billion or more in assets under management.

16. In RIAA's views, none of the proposed options in Table 3 will better align the CRD Regime with the AU Regime, even recognising existing limitations (e.g. a scheme equivalent to NGER reporting). This is because:
- Market capitalisation is used by the CRD Regime but the AU Regime uses revenue and assets, which is a better determinant of economic size and significance. Market capitalisation is based on market valuation which can be volatile and does not represent the size and significance of a company to the NZ economy and therefore the impact of its climate-related information.
    - For example, a listed issuer could have consolidated revenue of >$50 million with consolidated gross assets of >25 million but have a market capitalisation of <$60 million – resulting in an entity that would be required to report under the AU Regime but not required to report under the NZ Regime (see diagram at paragraph 47).
- CRD Regime is limited to listed public companies, presenting risks of regulatory arbitrage. The CRD Regime does not extending to (large) private companies or unlisted public companies and is at significant disparity with the AU Regime, resulting in entities that are of significance and size to the objective of the Regime being exempt

from reporting. The Discussion Document has explained on page 36 that this consultation will not consider whether the Regime should be extended to private companies that are not otherwise CREs with the view of alleviating current problems as soon as possible. However, by only applying the CRD Regime to listed public companies, this introduces the risk of regulatory arbitrage for the NZ economy which is contrary to the objectives of the Regime.

- The timeline for the proposed changes result in a confusing structure that does not support reporters or allow for alignment with the AU Regime. Any adjustments to the thresholds will require legislative change which, at their earliest, would come into force in early 2026. It is unclear how this timing would interact with the staged introduction of the AU Regime.
    - For example, if the NZ reporting threshold was changed to option 3, Company A, a CRE with a $500 million market capitalisation, commenced reporting in 2023 and will continue to report until 2026, at which time it will not be required to report for 2 years to only resume reporting in 2028. At the time that Company A is not required to provide a climate statement, AU Group 2 (which captures entities with >$200 million in consolidated revenue, and or >$500 million is consolidated gross assets, and or >250 employees) will have already commenced reporting in July 2026. This approach would unnecessarily complicate the established thresholds, waste investments made by reporters on getting ready to report and will not bring CREs into alignment with reporters under the AU Regime. See diagram at question 23.

17. In summary, to support the objectives of the CRD Regime and to better align with the AU Regime, RIAA recommends:

- the NZ CRE thresholds be based on financial reporting requirements contained within the *Companies Act 1993*. This would bring the CRD Regime into alignment with the AU Regime which relies on the thresholds in financial reporting;
- any reduction to the reporting thresholds follow the XRB post-implementation review of the CRD framework; and
- the CRD Regime be extended to unlisted public companies and large proprietary companies to support the objectives of the CRD Regime and mitigate risks of regulatory arbitrage.

18. RIAA is aware that the above recommendations would not reduce but instead increase the amount of CREs however considers that these reporters can and should be supported through additional guidance as well as through the introduction of differential reporting. Avoiding reporting obligations will not assist NZ businesses, investors or consumers when considering the resilience to and preparedness of climate risk by economically significant entities.

	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
4	**19.** Notwithstanding its submissions above, where the application thresholds are not open to being revisited, RIAA prefers option 1 to maintain the status quo (i.e. no change from $60 million market capitalisation threshold) with the addition of differential reporting. However, RIAA reiterates the risk of regulatory arbitrage

	and timeline inconsistencies and submits that differential reporting will not mitigate these issues.
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? **20.** Yes, see submissions above at paragraphs 16 to 18. **21.** RIAA strongly recommends that any changes to the CRD Regime be used as an opportunity to improve international alignment and interoperability, i.e. with the global baseline sustainability reporting standards published by the ISSB.
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? **22.** RIAA expects that there will be a sharp decline in consistency, quality and amount of information being provided without a corresponding legal framework. **23.** For example, the existing CRD Regime captures approximately 200 listed issuers. Prior to the commencement of the CRD Regime, voluntary reporting was adopted by listed issuers to varying degrees. A 2021 ***PWC Report*** found significantly fewer companies reporting with a wide variance in the type of disclosure: • While some New Zealand companies have voluntarily made good progress towards TCFD framework disclosures, the majority of NZX 100 listed companies are not yet publicly disclosing climate-related risks and opportunities. • 37% of all annual and/or sustainability reports mention the TCFD recommendations. • 15 NZX 100 listed companies applied the four core themes (governance, strategy, risk, metrics and targets) of the recommended climate-related financial disclosures. ○ 6 of the 15 companies were in the energy sector. • Out of the NZX 100 listed companies, 35 companies disclosed at least scope 1 of their GHG emissions, more than the 15 companies in the NZX 100 using the TCFD framework.
7	What are the advantages and disadvantages of a listed issuer being in a regulated climate reporting regime? **24.** A regulated mandatory climate reporting disclosure regime provides a consistent baseline expectation of information that should be provided to the market and stakeholders. This allows for increased transparency and comparability. In addition, clear expectations can reduce cost and resourcing burden and mitigate risk.

8	Do you have information about the cost of reporting for investment scheme managers? **25.** RIAA does not have specific information about the cost of reporting for investment managers but acknowledges that there has been a monetary and resource cost in becoming ready to, and preparing, climate statements in the first reporting year. **26.** However, RIAA reiterates its submissions at paragraphs 1-3 on the cost of inaction, as well as the expectation that the cost of reporting will reduce as compliance with the CRD Regime forms part of business as usual for organisations.
9	Do you have information about consumers being charged increased fees due to the cost of climate reporting? **27.** N/A. However, RIAA reiterates its views in paragraphs 2-3 and 32-33 on the cost to consumers of having no, insufficient, and/or unbalanced information on which to make investment decisions.
10	When considering the reporting threshold for investment scheme managers, which of the three options do you prefer, and why? **28.** RIAA submits that all options in Table 5 require further consideration before being finalised to both address the challenges experienced by investment scheme manager (ISM) CREs and to achieve the objectives of the CRD Regime. However, all options above run into timeline complications that will cause confusion and harm to the objectives of the CRD Regime as well as the investments made by the current CREs to report in their first year. **Concerns regarding the approach to aligning with the AU Regime** **29.** In attempting to align reporting thresholds with Australia, RIAA submits that it is this threshold is consistent with, but not necessarily identical to, with the Australian thresholds. The thresholds under the AU Regime were set relative to the size of the Australian market and anchored in financial reporting requirements. To be consistent with Australia, the NZ threshold should reflect the relative size of the NZ market – i.e. not identical in numerical figure. **30.** The difference in the two markets, and the importance of being equivalent but not identical, can be demonstrated in the difference between the KiwiSaver sector which has approximately NZD 111 billion assets under management (AUD 99.83 billion, as at 14 February 2025); and the Australian superannuation sector which as approximately AUD 4 trillion (NZD 4.45 trillion, as at 14 February 2025). Despite the disparity between AUM of the two sectors, relative to the NZ market, the KiwiSaver sector is significant (approximately 27% of economy). **31.** Having the same AUM threshold for both markets may not equate to a workable solution. This is further highlighted when considering the different stages of the respective retirement savings schemes: • The Australian superannuation scheme was introduced in 1992 and has grown to AUD 4 trillion following extensive policy developments and government reviews over that time. The Australian superannuation sector has also started to see more and more withdrawals with generations of members entering retirement, requiring trustees to navigate the transition from accumulation. • In contrast, the KiwiSaver scheme was introduced in 2007 and is steadily increasing in size in its accumulation period. As such, the

total pool of KiwiSaver assets will continue to grow and more and more providers will come under the CRD Regime, becoming larger and more economically significant. As such, providing guidance to CREs is paramount, over and above exclusion from the Regime altogether, only to be introduced at a later stage when climate risks are likely to be more pronounced with less time for mitigation and adaptation.

Potential impacts on consumers

32. In addition, RIAA draws attention to potential impacts on consumers and competition where there is an uneven application of the CRD Regime to entities that issue financial products to consumers. For example, a consumer may avoid an entity which is captured by the CRD Regime and prepares a climate statement (and refers to this information/statement in other disclosure documents as proposed by the FMA) due to information about how its investments may be negatively affected. The same consumer may then invest with a second entity which is not captured by the CRD Regime and therefore is not required to disclose similar information in the same manner or to the same degree.

33. Consumers will not be properly informed where there is an arbitrary difference to the information provided (unrelated to returns or size and significance) due to an uneven application of the CRD Regime and ISM CREs that are providing this useful information may be unfairly affected. Consumers should have an equal choice of investments options, and it should not be only the larger ISMs which are tasked with directing capital to climate resilience through the CRD Regime.

34. In relation to the options in Table 5:

- Option 1: This option would be appropriate with the proposed changes at paragraph 12 and with the introduction of differential reporting.
- Option 2: This option could potentially provide sufficient market coverage (80% of current AUM) to ease the reporting burden for smaller managers while capturing those entities of size and significance to the objective of the Regime. However, it is unclear how practical this option would be to alleviate this burden given the timeline of introduction. Under this timeline, all current ISMs will have completed three reporting cycles before no longer being required to report, see paragraph 47.
- Option 3: RIAA does not support this option. Under this option, over half of the AUM for which climate-related disclosure is being provided will be removed and the objectives of the Regime would be undermined. This option also introduces the risk of entities (which are of size and significance for their climate information to be material to the financial system) to avoid the obligations under the CRD Regime by shifting funds to ensure the per scheme threshold doesn't apply.

11	If the XRB introduced differential reporting, would this impact on your choice of preferred option?
	N/A

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?
	N/A
13	When considering the location of the thresholds, which Option do you prefer and why?
	35. RIAA is in-principle not opposed to secondary legislation being used to affect changes as long as there is sufficient flexibility to adapt, e.g. to global developments in reporting thresholds. **36.** Any changes to the CRD Regime should encourage international alignment and interoperability, i.e. with the global baseline reporting standards issued by the ISSB and be made with considered industry 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?
	37. RIAA submits that full public consultation be undertaken on an exposure draft of the secondary legislation to ensure all stakeholders are provided with the opportunity to comment on the precise structure and wording of the text.
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?
	38. RIAA submits that Option 1 (Status quo) is the preferred option and that changes to the director liability settings is not preferable. RIAA has made several submissions regarding the director liability setting within the AU Regime: • ***Submission on Climate-related financial disclosure Consultation paper (Design consultation).*** • ***Submission on Climate-related financial disclosure – Exposure draft legislation.***

39. We caution the Government against using legislation to address circumstances which can and should be addressed through guidance. Industry requires additional guidance in relation to the regulatory framework, including understanding how existing legal obligations apply to statements made under the CRD Regime. For example, FMA guidance on the application of section 23 of the *Financial Markets Conduct Act 2013* and what constitutes an unsubstantiated representation within the CRD Regime would be highly useful to assist industry and directors to meet its obligations. Providing a limited liability framework does not remove the need for guidance to ensure the success of the Regime. The development of best practice guidance and tools for climate disclosures by companies, investors and regulators would be best achieved through collaboration in order to ensure it is practical, realistic and is readily adopted.

40. Consumers and investors alike rely on climate disclosures, including representations, to inform significant decision-making. They must be able to have confidence in the information on which they are basing decisions, and climate-related risks and opportunities are highly relevant to company valuation and performance. In this context, companies and directors should be accountable for ensuring representations are substantiated.

41. Investors recognise that uncertainty and assumptions are inherent in some types of disclosures. However, reduced liability for disclosures risks diluting the value and integrity of the Regime.

42. Both the FMA and ASIC have stated they will be taking an educative approach towards enforcement in the early years of the Regime. The ***FMA's CRD Monitoring Plan 2023–2026*** outlines a "broadly educative and constructive approach", while ***ASIC stated*** they would take a "proportional and pragmatic approach" to enforcement. This then is the right time to address the absence of regulatory guidance in NZ and to better align with Australia's approach (e.g. ASIC has issued industry guidance in relation to application of existing laws in the areas of sustainability-related financial products).

43. In relation to the other options:

- Option 2 and 3: Any legislative amendment to the FMC Act to reduce or remove director liability for climate related disclosures would threaten the credibility and objective of the Regime and should be avoided. In addition, it appears that these options are not temporary and propose removing director liability indefinitely. This would greatly undermine the reliability and credibility of the information provided under the Regime and further misalign the CRD Regime with the AU Regime into the future.
- Option 4 – The introduction of a temporary modified provision modelled off the AU Regime may be appropriate in theory. However, RIAA refers to a mismatch of timing (see paragraph 47): the Australian modified liability setting covers a strict three-year period commencing at the start of the Regime. NZ CREs will have already completed reporting for this period before any changes to the current NZ liability settings could be made.

16	Do you have another proposal to amend the director liability settings? If so, please provide details.
	N/A
17	If the director liability settings are amended do you think that will impact on investor trust in the climate statements?
	44. Yes – see paragraphs 38-43.
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?
	N/A
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)
	N/A
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?
	45. RIAA does not have sufficient information to consider this proposal. In considering any changes to reporting requirements for subsidiaries of multinational companies, it is necessary to understand the impact of such a change – e.g. how many subsidiaries of multinational companies would be captured by this proposed change. Without understanding the likely change to the number of reporting entities and the coverage of the financial system, it is difficult to consider the degree to which this will affect the objectives of the Regime. However, the relevant consideration remains the size and significant of the entity itself on the NZ market (e.g. reflecting the financial reporting requirements contained within the *Companies Act 1993*). **46.** The XRB post-implementation review should specifically consider differential reporting for subsidiaries of multinational companies to address the reporting burden (if any) for this category of CREs.
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?
	N/A

Final comments

23	Please use this question to provide any further information you would like that has not been covered in the other questions.

47. RIAA refers to the following diagram outlining the timeline of both the CRD Regime and the AU Regime to illustrate potential impracticality and confusion to the market and to the objectives of the Regime.