



24 September 2024

Mr Stuart Smith MP
Chair, Finance and Expenditure Committee
fe@parliament.govt.nz

Inquiry into banking competition

The External Reporting Board (**XRB**) is an independent Crown entity, established by the Financial Reporting Act 2013 (**FRA**), with our role being to make secondary legislation as the statutory standard setter for reporting and assurance in New Zealand. In accordance with section 12 of the FRA, the XRB's main functions are to prepare and issue:

- accounting standards for entities that are required to prepare general purpose financial reports under approximately 50 Acts
- auditing and assurance standards, which describe practitioners' responsibilities when conducting audits and other assurance engagements
- climate standards for climate related disclosure (**CRD**) purposes under Part 7A of the Financial Markets Conduct Act 2013 (**FMCA**).

Section 12(e) also states that one of our functions is to liaise with international and national organisations that perform functions that correspond with, or are similar to, those conferred on the XRB. This includes international standard setting bodies and the statutory standard setters of other jurisdictions.

This letter relates to the part of the inquiry relating to "any possible impact of the regulatory environment on competition and efficient access to lending, including...climate related disclosures." We outline the purpose and key features of the CRD regime and the international regulatory landscape in relation to CRD, to provide contextual information to this inquiry. We have not expressed views about whether CRD has implications for competition in the banking sector.

Overview of the CRD regime

The primary purpose of the CRD regime is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future. Part 7A of the FMCA requires large banks, insurers, listed companies and investment scheme managers to prepare and publish annual climate statements in accordance with climate





standards issued by the XRB. This requirement came into force for financial years commencing on or after 1 January 2023. CREs must ensure that the disclosures in their climate statements relating to greenhouse gas (GHG) emissions are independently assured for financial years commencing on or after 28 October 2023.

The Financial Markets Authority (FMA) is responsible for enforcing the CRD regime, including monitoring climate statement compliance with the XRB's climate standards. We understand that the FMA is also submitting to this inquiry.

Impact of the CRD regime on banks

Registered banks interact with the CRD regime in three ways:

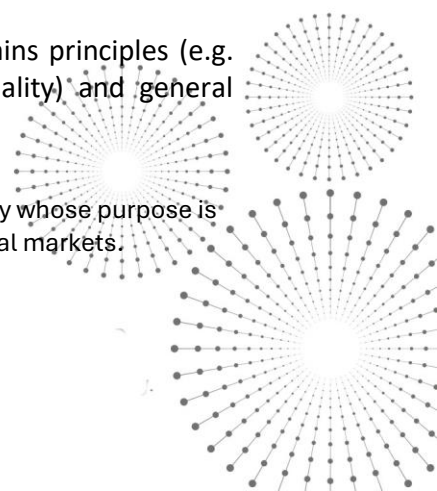
- A bank with total assets exceeding \$1 billion must report on its climate-related risks and opportunities.
- A bank that operates managed investment schemes with total assets under management exceeding \$1 billion must report on the climate-related risks and opportunities for the schemes it manages.
- Banks are potential users of climate-related disclosures published by listed companies and other CREs they provide debt capital to.

The XRB's standards and guidance

The XRB issued three climate standards in December 2022, collectively known as Aotearoa New Zealand Climate Standards (NZ CS):

- The core disclosures under *Climate-related Disclosures, NZ CS 1*, relate to governance, strategy, risk management, and metrics and targets. This approach is consistent with the recommendations made in 2017 by the Task Force on Climate-related Financial Disclosures (TCFD)¹ which are the basis for all other jurisdictions' CRD regimes, meaning the New Zealand regime is globally aligned.
- *Adoption of Aotearoa New Zealand Climate Standards, NZ CS 2*, provides CREs with certain optional disclosure exemptions, mainly in the first year, with some also available in the second and third years.
- *General requirements for Climate-related Disclosures, NZ CS 3*, contains principles (e.g. relevance and understandability), underlying concepts (e.g. materiality) and general reporting requirements (e.g. methods and assumptions).

¹ The TCFD was established by the Financial Stability Board, an international body whose purpose is to strengthen financial systems and increase the stability of international financial markets.





The New Zealand Auditing and Assurance Standards Board, which is an XRB committee, issued a GHG assurance standard (NZ SAE 1) in August 2023. It requires assurance practitioners to carry out those engagements in accordance with either of two standards, one issued by the International Organization for Standardization (ISO 14064-3:2019), the other the New Zealand equivalent of an International Auditing and Assurance Standards Board standard (ISAE (NZ) 3410).

The XRB has published several staff guidance documents about NZ CS and GHG emissions disclosure assurance. This includes two NZ CS-related guides published jointly with the FMA.

Climate-related disclosures overseas

More than 80 percent of New Zealand's exports by value are going to countries with mandatory CRD regimes, proposed or in force.² Australia, the European Union, United Kingdom, China, Japan, Singapore, Malaysia, Canada and California are among the many jurisdictions that have recently introduced mandatory CRD regimes founded on the TCFD recommendations or are in the process of doing so. Some have imposed stand-alone CRD obligations, while others have implemented CRD as a broader set of sustainability reporting obligations.

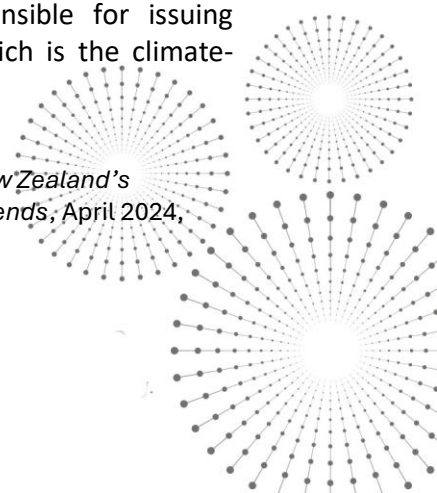
There are jurisdictional differences in the intent and scope of CRD requirements globally, with the New Zealand regime more principles-based and flexible compared to some other regimes. The intent of this approach is to enable innovation in reporting and to reduce regulatory burden by meeting the varying needs of the different types of entities required to report in New Zealand. Stakeholders tell us that New Zealand businesses could find it increasingly difficult to raise capital internationally and export without the support of a domestic CRD regime that is aligned with international best practice.

Australia

Australia has imposed mandatory CRD through the Treasury Laws Amendment (Financial Market Infrastructure and Other Matters) Act 2024 (**the Treasury Laws Act**), which was passed in September 2024. It provides for CRD to be implemented in three phases, with phase one applying to the largest companies, both listed and private, for financial years commencing on or after 1 January 2025.

The Australian Accounting Standards Board (**AASB**), which is responsible for issuing accounting standards and climate standards, has adopted IFRS S2, which is the climate-

² See the Chapman Tripp report prepared for the Aotearoa Circle – *Protecting New Zealand's competitive advantage: A snapshot of global sustainability reporting and trade trends*, April 2024, p.2, [Chapman Tripp | Protecting New Zealand's competitive advantage](#).





related disclosure standard issued by the International Sustainability Standards Board.³ The AASB has added a small number of Australian-specific paragraphs into their Australian standard, known as *AASB S2, Climate-related Disclosures*. The AASB has also issued an Australian equivalent of IFRS S1 as a voluntary general sustainability reporting standard (AASB S1).

There is a strong degree of alignment between NZ CS 1 and AASB S2 because the core content, concepts and general requirements are the same. However, reporting in accordance with one standard will not necessarily meet the requirements of the other because there are differences in detail. We estimate that AASB S2 imposes approximately 50 more disclosure requirements than NZ CS 1, while NZ CS 1 includes a small number of obligations that are not included in AASB S2.

The Treasury Laws Act includes a regulation-making power that empowers the Australian Federal Government to introduce mandatory reporting for other environmental sustainability topics, such as nature and biodiversity. Mandatory reporting in New Zealand is limited to climate.

Additional information

Please contact me (april.mackenzie@xrb.govt.nz) or Amelia Sharman, Director Sustainability Reporting (amelia.sharman@xrb.govt.nz), if you would like further information or would like the XRB to appear before the Committee.

Yours sincerely,

April Mackenzie
Chief Executive, External Reporting Board

³ In June 2023 the ISSB issued *IFRS S1 – General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2 – Climate-related disclosures*. IFRS S2 requires an entity to disclose information about its climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital. These standards were issued six months after NZ CS were issued.

