



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

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External Reporting Board
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By email: climate@xrb.govt.nz

NZX Submission on the External Reporting Board Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures, Governance and Risk Management Consultation Document

Background

1. NZX Limited (**NZX**) submits this response to the External Reporting Board (**XRB**) Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures, Governance and Risk Management (**NZ CS 1**) Consultation Document, 20 October 2021 (**Consultation Document**).
2. We thank the XRB for the opportunity to make this submission and XRB's active engagement with NZX in relation to the development of the reporting regime. We look forward to contributing towards the XRB's development of a climate standard reporting framework for New Zealand.
3. NZX considers that ESG reporting acts as a foundation for New Zealand's development of a sustainable and climate resilient economy, by enabling investors to make informed investment decisions based on environmental, social and governance considerations, including an entity's climate related risks and opportunities. NZX is a partner exchange of the Sustainable Stock Exchanges Initiative¹, and has made a voluntary commitment to promote ESG disclosure to our issuers. NZX supports ESG reporting for our issuers through both the NZX Corporate Governance Code and NZX ESG Guidance Note². NZX is also a member of the Aotearoa Circle's Sustainable Finance Forum's Leadership Group.

¹ More information about the Sustainable Stock Exchanges Initiative is available [here](#).

² NZX notes that as the Code operates on a 'comply or explain' basis, NZX does not require issuers to provide ESG reporting but encourages them to do so through the recommendations and commentary included in the Code.

4. NZX is supportive of the introduction of a climate-related reporting framework under the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (**Act**). NZX considers that the development of this framework will deliver competitive advantages for New Zealand entities as well as broader environmental benefits, that will assist in creating a market environment to support sustainable environmental wellbeing in the long term, and enhance sustainability and resilience for New Zealand businesses. We consider that climate-related reporting has become a key driving force in a global movement towards creating more environmental accountability and awareness for financial reporting entities³.
5. Nothing in this submission is confidential.

Response to consultation

6. We support the efforts of the XRB in developing New Zealand's climate-related disclosure standards with the release of the exposure draft of NZ CS 1. NZX wishes to acknowledge the difficult task that the XRB has been given in creating a disclosure framework for New Zealand under the Act, which will be the first mandatory reporting regime for climate related disclosures in the world.
7. NZX shares XRB's view that the climate-related disclosure standards under the Act should be developed in a manner that enables them to be both consistent with developing international standards, as well as flexible enough to enable climate reporting entities across different market sectors who are differentially affected by climate related issues to comply with the requirements. We therefore support the introduction of CS-1 and the other reporting standards that are to be developed under the Act on a 'principles' basis that aligns with the recommendations developed by the Task Force on Climate-related Financial Disclosures (**TCFD**).

Materiality

8. As part of the proposed sections of NZ CS 1, we understand that the overarching requirements relating to CS1 (as contained in Table 2 of the Consultation Paper) will include requirements relating to the application of the concept of materiality to the disclosure of climate-related issues. We understand that this will be the subject of a secondary consultation in March 2022. This will be an important aspect of the development of the climate-related reporting framework, particularly as a number of the proposed disclosure requirements in NZ CS 1 (as set out in the Consultation Paper) do not specifically reference the concept of materiality. The application of materiality within the climate-related reporting framework is likely to raise novel considerations for climate-reporting entities and may be an area where additional guidance would be helpful.

Governance

9. Section 4(a) of Part 7.2 of the Consultation Paper states that NZ CS 1 would require an entity to include a disclosure of 'whether and how' climate related performance

³ 'Reporting climate risk: Connecting you to today's corporate reporting challenges', Deloitte Accounting Alert June 2021 available [here](#) (refer to pages 2 and 7 on accountability and global developments towards climate-related disclosures).

metrics are incorporated into remuneration policies. We acknowledge that the TCFD recommendations include that entities should disclose how climate-related policies and targets are incorporated into remuneration policies, but we understand that this guidance relates to organizations where climate-related risks are material⁴. We also suggest that the formulation of this disclosure requirement in relation to performance metrics adds a level of prescription which may be inappropriate given the intention to adopt the TCFD framework on a principles basis.

10. We endorse the XRB's proposed approach to not require disclosure in relation to the specific climate-related skills and competencies of individual board members, and agree that the more relevant consideration is how a board can access expertise on climate-related issues.
11. We note that certain disclosures in the governance standard are framed as requiring a climate reporting entity to disclose 'whether and how' it has approached a practice on which it is required to report. Given that the NZ CS 1 will not operate on a 'comply or explain' basis it would be helpful if the XRB would provide further clarity as to the level of disclosure that is expected when a climate-reporting entity discloses that it has not adopted a practice identified in NZ CS 1 (in particular, whether an explanation is required). We also suggest that the requirement is framed as 'whether and if so, how' (as adopted in section 4(e)) rather than 'whether and how' (as adopted in sections 4(c) and 4(d)).

Risk management

12. We note that it is proposed that NZ CS 1 require an entity to disclose its processes for identifying and assessing climate-related risks in relation to 'the value chain stage(s) covered', and that the XRB has noted in the Consultation Paper that an entity should consider the climate-related risk exposure of its value chain. We consider that many climate-related entities will have non-climate-related reporting entities as part of their value chain, and that it could be difficult for reporting entities to obtain information to make this assessment. We suggest that it would be helpful for guidance to be issued in this area to enable climate-reporting entities to assess the standard of due diligence that should be applied to making this assessment in relation to suppliers.

Closing comments

13. NZX wishes to again acknowledge the efforts of the XRB towards conceptualising and designing the settings of New Zealand's climate-related disclosure framework. We support the direction that the XRB has decided to take with these standards and commend the XRB's efforts to create a standard which will be internationally comparable. NZX thanks the XRB for this opportunity to submit on this consultation and look forward to discussing and providing feedback on the proposed settings of NZ CS 1.

⁴ 'Recommendations of the Task Force on Climate-related Financial Disclosures', October 2021 (refer to page 47 which contains guidance for the financial sector).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Kristin Brandon', written in a cursive style.

Kristin Brandon
Head of Policy and Regulatory Affairs
NZX Limited