

Michele Embling, Chair
External Reporting Board (XRB)
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Submitted to climate@xrb.govt.nz
13 September 2022

Submission on New Zealand Climate-Related Disclosure Framework (Consultation Document from July 2022)

1. Overall response

Thank you for the opportunity to provide feedback on the final consultation by the XRB regarding the Climate-related Disclosure (CRD) framework.

We support the creation of standards that help New Zealand businesses to align against global expectations in terms of climate change management and mitigation. As a corporate citizen, and future climate reporting entity (CRE) we have already started this journey by releasing our first Sustainability Report as believe it is the right thing to do and aligns with our values.

We will refer to the consultation questions one to six (1-6) through our answer below and the full wording of the actual question as per XRB consultation document can be found on Appendix 1.

Background

PMG is a trusted unlisted property fund manager with 30 years history of investing in and managing commercial and industrial property across New Zealand. We are a responsible investment manager holding a MIS license under the FMCA 2013.

We have a growing footprint of over 45 commercial and industrial properties that are home to 185* tenants nationwide. We currently have \$900M of assets under management on behalf of our retail and wholesale investors. It is likely that by 1 April 2023, PMG will have

TAURANGA (H.O.)

P 07 578 3494
Level 1, 143 Durham St
Tauranga 3110
PO Box 2034
Tauranga 3144

AUCKLAND

P 09 283 0222
Level 1, 5 Short St
Newmarket, Auckland 1023
PO Box 99 334
Newmarket, Auckland 1149

CHRISTCHURCH

Blackheath
Suite 2, 7 Wordsworth St
Sydenham
Christchurch 8023

OVERSEAS INVESTORS

P +64 7 578 3494
PO Box 2034
Tauranga 3144
New Zealand

info@pmgfunds.co.nz
0800 219 476

[pmgfunds.co.nz](https://www.pmgfunds.co.nz)

close to or over \$1B of assets under management which would make us a Climate Reporting Entity (CRE) under the consultation terms.

As a successful, values-based, company we are committed to making a positive impact on our environment, our communities and the property and investment sectors of New Zealand. We are committed to building a sustainable future as demonstrated by our environmental, social and governance initiatives detailed in our inaugural Sustainability Report. This includes the work we do under the PMG Charitable Trust which is focused on delivering financial literacy education to young New Zealanders (www.pmgcharitabletrust.org.nz) to address financial inequality in New Zealand.

Feedback on practical concerns

As mentioned in our feedback to the second consultation on CRD by the XRB our business reality is that most of the property sector buildings are not new, they are grade B or lower. This means that retrofitting to implement technology and measures (include re-negotiating leases to allow us to monitor and gather quality data) to reduce carbon emissions from these buildings is significantly more challenging and costly, compared to new builds. We are concerned that these costs will become yet another barrier of entry to the industry and/or ultimately impact significantly the disclosures and our investors.

To answer question 3 of this consultation, no amount of disclosure will help reporting entities to ease to burden of bearing the costs of upgrading buildings, however the XRB can help with a staged approach to the implementation of the disclosures. A practical concern is that some buildings might have to be retrofitted or even rebuilt from the ground up to be able to capture the kind of information required in the disclosures therefore becoming unfeasible to disclose in the immediate, medium, and long term as required.

Ultimately estimations could be made, however they would weigh down the fund portfolio from a CRD perspective. Primary users may ultimately punish reporting entities doing the right thing but that happened to own unsuitable buildings/investments at the beginning of the regime. Even if the latter is not the case, buildings not up to scratch may be left behind for unlicensed managers leading to a concentration of significant assets on the hands of non-reporting entities ultimately detracting from NZ 2050 emission targets and the spirit of this legislation.

Feedback about the first-time adoption provisions and draft guidance

Regarding question 4, the first-time adoption provisions scope is too narrow. We believe a longer staged approach (rather than a one-off) is required for a successful integration of the standards into the culture of the CREs. A longer staged timeline detailing what elements to disclose are to be included year on year until full disclosure is achieved would go a long way to further encourage CREs and entities that wish to report voluntarily to do so as intended by the regulator and the XRB.

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About question 5 the draft guidance provided to date is excellent from a technical point of view. Specifically, the Guidance for MIS CREs help us to understand better what disclosures under this regime would require reporting.

However, in relation to question 1 of this consultation we do not believe it would meet the primary user needs. Two main observations:

- First, there is a risk of lack comparability of the disclosures
 - given the principle-based approach it is very easy to lose the primary user engagement as a climate disclosure from a CRE can be wildly different from the next CRE leading to confusion detracting from achieving the objective of this legislation.
 - we feel the disclosures as they are, aim to meet the regulator disclosure needs rather than the primary user's.
- Second, in the Secondary Market space we estimate that approximately between 80% to 90% of this market is composed of wholesale funds which can hold billions of dollars in assets. However, we fear these funds would not be captured under this legislation. Wholesale funds do not seem to fall under the definition of a "climate reporting entity" by the fact of managing funds that are unregulated.
 - We would like clarity from the XRB if this is the case. We believe that capturing just 10% to 20% of the secondary market which are "managers of registered schemes" would not be in the best interest of the primary users as they would be missing critical information needed to make an informed decision on wholesale funds.
 - In turn, this lack of transparency from wholesale funds could be averse to the objectives of NZ carbon neutrality objectives 2050 whereby a large proportion of NZ's existing properties will essentially have limited oversight, reporting and accountability to improve environmental performance.

Closing remarks

Regarding question 6 about the proposed locations of the disclosures we agree with the implication here, as flexibility will be key to allowing CREs to adapt the principles to their businesses. However as mentioned through our answer, flexibility must be matched with clear landmarks to ensure CREs do not deviate largely from the intended path regardless of how they choose to travel it.



Sincerely,
Scott McKenzie
CEO PMG

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2. Appendix 1 – Consultation Questions

Question 1

Do you think draft Aotearoa New Zealand Climate Standards will meet primary user needs?

- a) Do you think that the proposed disclosure requirements will provide information that is useful to primary users for decision making? If not, please explain why not and identify any alternative proposals.
- b) Do you consider that draft Aotearoa New Zealand Climate Standards are clear and unambiguous in terms of the information to be disclosed? If not, how could clarity be improved?
- c) Do you consider that draft Aotearoa New Zealand Climate Standards are comprehensive enough and achieve the right balance between prescriptiveness and principles-based disclosures? If not, what should be removed or added to achieve a better balance? Please consider your answer to question 5 when responding to this question

Question 2

Do you have any views on the defined terms in draft Aotearoa New Zealand Climate Standards?

Question 3

Do you have any practical concerns about the feasibility of preparing the required disclosures in draft Aotearoa New Zealand Climate Standards? In responding to this question, please consider the proposed first-time adoption provisions in NZ CS 2 and your answer to question 4. Please also clearly explain what would make the specific disclosure unfeasible to disclose against either in the immediate term or the longer term.

Question 4

Do you agree with the proposed first-time adoption provisions in NZ CS 2? Why or why not?

Are any additional first-time adoption provisions required? If so, please provide specific details regarding the adoption provision and the disclosure requirement to which it would apply, and the period of time it would apply for.

Question 5

Do you think the draft staff guidance documents will support CREs when making their disclosures and support consistent application of the disclosure requirements? Why or why not?

- a) Do you think the guidance is under, adequately or overly specific and granular?

Do you consider that anything in the guidance should be elevated into the standard? Should anything be demoted from the standard into guidance?

Question 6

Paragraphs 13 to 19 of draft NZ CS 3 are the proposed location of disclosures requirements. Paragraphs BC14 to BC20 of the basis for conclusions on draft NZ CS 3 explain the XRB Board's intent regarding these proposed requirements. Do you agree with the proposed location of disclosures requirements? Why or why not?

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