



NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

NZX Limited
Level 1, NZX Centre
11 Cable Street
Wellington 6140
New Zealand

www.nzx.com

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External Reporting Board
PO Box 11250,
Manners St Central,
Wellington 6142,
New Zealand

By email: climate@xrb.govt.nz

NZX Submission on the Aotearoa New Zealand Climate Standards

Background

1. NZX Limited (**NZX**) submits this response to the External Reporting Board (**XRB**) in relation to the XRB's consultation on the proposed Aotearoa New Zealand Climate Standards (**Climate Standards**) and associated staff guidance.
2. NZX is New Zealand's exchange, and a member of the Sustainable Stock Exchanges Initiative. NZX has 208 issuers listed on our markets, whose total market capitalisation is approximately \$218.5 billion, many of our issuers will be climate reporting entities to whom the Climate Standards will apply.
3. NZX is supportive of the continued development of a climate-related reporting framework for Aotearoa New Zealand. As primary users continue to place increasing importance on climate-related disclosures, we consider that this reporting will deliver competitive advantages for New Zealand entities as well as broader environmental benefits. We acknowledge the efforts of the XRB in providing high quality consultation materials that have been developed under short-time frames, and the engagement work that XRB has undertaken in relation to the new regime.
4. We thank the XRB for the opportunity to make this submission, and note that nothing in this submission is confidential.

Response to consultation

5. We set out below, our responses to the questions contained in the consultation materials. We have omitted questions where we do not have submission feedback.

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

6. In broad terms, we consider that the Climate Standards will ensure that information is reported that will meet primary user needs, noting that the quality of climate-related disclosures is likely to mature and improve over time.
7. We note that the definition of 'primary users' is 'existing and potential investors, lenders and other creditors', and that climate-reporting entities are required to consider whether information is material, by considering whether information could reasonably be expected to influence primary users' decisions when considering an entity's enterprise value.
8. We consider that it may be helpful to clarify the type of investor who should be considered to be a primary user, by reference to the concepts contained in the Financial Markets Conduct Act 2013 (**FMCA**), such that a primary user is an investor who commonly invests in financial products¹, as this will affect the assessment of materiality.

a) Do you think the proposed disclosure requirements will provide information that is useful to primary users for decision making? If not, please explain why not and identify and alternative proposals.

9. Overall, we consider that the proposed disclosure requirements will result in useful information being provided to primary users for decision-making.

b) Do you consider that draft Aotearoa New Zealand Climate Standards are clear and unambiguous in terms of the information that to be disclosed? If not, how could clarity be improved?

10. We have concerns about the proposed approach to materiality in NZ CS 3. The commentary in paragraph 37 of proposed NZ CS 3, notes that material information could include information about an entity's impacts on the climate if those impacts could reasonably be expected to affect an entity's enterprise value (for example as a result of subsequent regulatory action or social pressure), and encourages entities to think broadly about possible feedback loops.
11. This paragraph is further explained in BC33 to BC35, where the XRB notes that labels such as 'single' and 'double' materiality may be unhelpful, and that the proposed approach of suggesting that issuers consider possible feedback loops will mean that primary users are not receiving less information than if the XRB Board proposed a different materiality definition.
12. We are concerned that these statements may create uncertainty for climate-reporting entities as to the disclosure standard that they are required to meet.
13. We consider that the concept of materiality should be used to inform the extent of a disclosure rather than the nature of the matters to be disclosed. In relation to

¹ Refer to the definition of 'material information' in section 59 of the Financial Markets Conduct Act 2013.

disclosures of climate-related risks and climate-related opportunities, we note that the scope of the disclosure relates to the climate's effect on the reporting entity. We consider that considerations such as regulatory action, or social pressure arising from the reporting entity's effect on the climate would need to be sufficiently certain and proximate to be considered a risk or opportunity related to the climate's effect on an entity.

14. Our concern is that the proposed language in the standard may by default cause reporting entities to adopt a 'double materiality' standard, in order to ensure that they are meeting the requirements. If this is XRB's intent we suggest that this is more clearly expressed in the standard, noting that our preference is for a 'single' materiality standard to be applied.

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.

15. We agree that the Climate Standards appropriately balance prescriptive and principles-based disclosures, and we support the approach of acknowledging the value of entities reporting qualitative information initially, and building to quantitative disclosures over-time.
16. We note that proposed NZ CS 3 contemplates a reporting entity providing an explicit and unreserved statement of compliance, and that this be prominently displayed. We query the purpose of this statement, given that appropriate penalties and enforcement powers exist within the legislation to enable action to be taken against non-complying climate-related disclosures. We consider that climate-reporting entities may have some sensitivity to providing this confirmation, particular during the introduction phase of the regime, where disclosure practices are being developed.

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

17. We are supportive of the proposed approach to the first-time adoption provisions, and in particular the relief provided for reporting scope 3 GHG emissions. We consider that climate-reporting entities are likely to voluntarily report scope 3 emissions to the extent that such information is available, but that specific relief is helpful while further scope 3 data becomes available.

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?

18. We support the approach taken in the draft staff guidance documents, and in particular the acknowledgement of the value in providing qualitative information while quantitative information is further developed.

6) Paragraphs 13 to 19 of draft NZ CS3 are the proposed location of disclosures requirements. Paragraphs BC14 to BC20 of the basis for conclusions on draft NZ CS3 explain the XRB Board's intent regarding these proposed requirements. Do you agree with the proposed location of disclosures requirements? Why or why not?

19. We support the proposed approach that climate-reporting entities are afforded the discretion to determine where to present its disclosures, either in a standalone document or within the annual report.
20. The legislation² contemplates that a reporting entity may include a cross-reference in its annual report to the location on its website as to where its climate statements are located. We note that under the NZX Listing Rules³ an issuer is required to release its annual report to the market within three months of the end of its financial year, which is sooner than the 4 month period that will apply to the preparation of climate statements⁴. We suggest that it would be appropriate for a reporting entity to include a link in its annual report to a website landing page on which its climate statements are to be housed within its annual report, so long as the climate statements are available within the statutory period, in order to allow reporting entities to benefit from the full 4 month preparation period.

Closing comments

21. NZX wishes to again commend the XRB for its work in developing the Climate Standards. We would be happy to discuss the matters raised in this submission with you.

Yours faithfully,



Kristin Brandon
Head of Policy and Regulatory Affairs
NZX Limited

² Refer to section 461ZJ(2)(b) of the Financial Markets Conduct Act 2013 (not yet in force).

³ Refer to NZX Listing Rule 3.6.1.

⁴ Refer to section 461Z of the Financial Markets Conduct Act 2013 (not yet in force).