Boutique Investment Group submission on: XRB Strategy and Metrics and Targets sections, Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1)

Submitted by the Boutique Investment Group on behalf of: AMP Wealth Management New Zealand Limited; Always Ethical Limited; Castle Point Funds management; Fisher Funds Management Limited; Kiwi Wealth Investments Limited Partnership; Milford Funds Limited; Mint Asset Management Limited; Nikko Asset Management New Zealand Limited; Pie Funds Management Limited; and Salt Investment Funds Limited.

INTRODUCTION AND OVERVIEW OF SUBMISSION

We are pleased to make this submission on behalf of the above managers of retail managed investment schemes via the Boutique Investment Group (BIG).

This submission relates to the third and final consultation document on Climate-related Disclosures, incorporating NZ CS 1, 2 and 3, and the Draft Guidance for MIS Managers.

We would like to acknowledge the XRB's efforts to produce the draft standards and consultation documents, and in particular offer our thanks for the detail provided in the Draft Guidance for MIS Managers. This has provided meaningful clarity on how the standards can be applied to Managed Investment Schemes.

Please see below our feedback on the consultation questions posed in NZ CS 3.

RESPONSE TO CONSULTATION QUESTIONS

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

We would like to reiterate the feedback provided in our submission on the Strategy and Metrics and Targets sections regarding the technical nature and large volume of data.

The majority of our primary users are retail investors via Kiwisaver or direct investment schemes who need clear disclosures that are easy to understand without a significant level of climate knowledge. To this end, we believe disclosures for Managed Investment Schemes should remain high level and link all information to the MIS Manager's strategy as applicable to the scheme in question.

The Draft Guidance for MIS Managers provided some clarity on the use of high level, qualitative data to improve the accessibility of the disclosures. However, there are a number of areas we think would benefit from further clarity on the level of detail MIS Managers need to provide.

1. **Emissions Data**

   We are concerned that the metrics provided under disclosure CS 1.20 will not be meaningful or comparable for the end users of Managed Investment Schemes.

   The ability of the MIS Manager to choose which recognised standard to use to calculate the GHG emissions and the flexibility provided by those standards, such as PCAF, mean it is likely that MIS Managers will report the scope 3 emissions of Managed Investment Schemes differently. For example, MIS Managers can report the scheme's scope 3 emissions that reflect only the scope 1 and scope 2 emissions of the scheme's investments, or scheme scope 3 emissions that reflect the scope 1, 2 and 3 emissions of the scheme's investments. Given the majority of emissions are scope 3, this will lead to significant differences in the reported emissions of the Managed Investment Schemes.

We recommend the XRB define what constitutes scope 3 emissions for MIS Schemes, and recommend scope 1, 2 and 3 upstream of the scheme's investments as the most appliable measure.

2. Confusion between Managed Investment Scheme and MIS Manager

We would like to thank the XRB for their efforts in providing additional detail and examples on how the disclosures can apply to Managed Investment Schemes. However, there are a number of areas where the disclosures are still applied to the MIS Manager. This could be confusing to end users and allow obfuscation of climate policies that do not apply to the subject Managed Investment Scheme.

- Disclosure 1.13(d) regarding the inputs to the financial planning process cannot be applied to a Managed Investment Scheme as schemes do not have a specific financial planning process. We suggest this disclosure should not be required for Managed Investment Schemes.
- We acknowledge the XRBs note in relation to disclosure CS 1.15(b) regarding the development of additional guidance for MIS Managers to prepare a transition plan for Managed Investment Schemes. We would like to reiterate the need for this to be at the specific scheme level, as the transition plan of the MIS Manager may not be appliable to all schemes in equal measure depending on the schemes risk category and benchmark.
- Disclosure CS 1.21(f) regarding capital deployment is also difficult to apply at scheme level given a scheme does not have capital to deploy. While the examples provided in the Draft Guidance for MIS Managers offered some ideas to answer this question, these are not appropriate to all MIS Managers or all schemes. For example, a MIS Manager investing capital to support an environmental focused scheme should not describe this in its disclosures for the other schemes it manages. We would prefer this disclosure is also not required for Managed Investment Schemes.

3. Scenario Analysis

We provide more detailed about the issues presented by scenario analysis in our response to question 3. We would like to reiterate here that the outputs from the scenario analysis are unlikely to be comparable across Managed Investment Schemes, and qualitative data will be unreliable with the risk of misleading disclosures. We suggest quantitative disclosures for scenario analysis are most appropriate for MIS end users until wider adoption of TCFD drives better availability and quality across scheme's investments.

Question 2: Do you have any views on the defined terms in draft Aotearoa New Zealand Climate Standards?

We have no contradictory view on the defined terms in the draft standards and appreciate the clarity these have provided.

Question 3: Do you have any practical concerns about the feasibility of preparing the required disclosures in draft Aotearoa New Zealand Climate Standards?

Scenario Analysis

Preparing scenario analysis remains the biggest practical concern for the BIG Group.

Undertaking scenario analysis across a large number of debt and equity instruments, many of which are multi-geography or multi-sector, is an undertaking beyond the resources and capability of most New Zealand MIS Managers.

In order to provide any qualitative data to meet disclosure requirement CS 1.10 and CS 1.20, MIS Managers will be reliant on third party data providers. The quality of the data can be poor and is variable across different providers. For example, data collected via surveys is generally out of date, and data that is modelled is different for the same company across different providers due to different methodologies. Therefore, even when using common scenarios, the outputs from MIS Managers using different data providers will not be comparable.

We would appreciate further reassurance that a qualitative only approach to scenario analysis disclosures is appropriate until the ability to access, verify and calculate quality data for debt and equity instruments is available. An additional example of a simple, high-level, qualitative disclosure that the XRB believes still meets the standards would also be very useful for MIS Managers.

Climate-related opportunities

Disclosure CS 1.21(e) also poses a challenge to MIS Managers. In reality, many companies have some climate related opportunities, but are rarely 100% focussed on climate related opportunities. It is unfeasible to isolate the proportion of revenue or value aligned with climate-related opportunities across all the holdings in a MIS Scheme and it is potentially misleading to define climate-related opportunities at sector level. We cannot see how an MIS Manager can provide any useful qualitative disclosure for a non-climate specific scheme under this disclosure, and request it is an optional disclosure only for those schemes with something meaningful to disclose.

Role of Supervisor

We would like to better understand the role of the supervisor in assuring the climate related disclosures. Could the XRB please confirm it is the quantitative climate data in the report that is subject to assurance.

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

We do agree with the proposed first-time adoption provisions in NZ CS2. We do not see the need for any additional provisions other than those highlighted above as not relevant to MIS Schemes (disclosures 1.13(d), CS 1.21(e) and CS 1.21(f)). Adoption provisions could be used for these disclosures if they are to be required for Managed Investment Schemes.

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?

The draft staff guidance is key to supporting Managed Investment Scheme disclosures. The applicability of the disclosures to the scheme, not the manager, as well as the complexity in the scope 3 emissions, mean there are some differences in the application of the standards that the staff guidance has helped to clarify. As referenced above, we would appreciate some more prescription on the use of qualitative information only in the disclosures, and the provision of additional examples. In general, the complex nature of applying the standards to Managed Investment Schemes means we prefer granular, specific guidance and as many examples as the XRB are comfortable providing.

In relation to point b of question 5, we suggest the temperatures designated for the scenario analysis provided in point 12 of NZ CS 1 are demoted from the standard into the guidance to allow the temperatures to change over time. NZ CS 1 prescribes a 1.5 degree warming scenario, a 3 degree warming scenario and one other scenario. These may not always be the most appropriate scenarios, for example it is a real possibility global warming will exceed 1.5 degrees in the next 10 years, rendering this scenario redundant.

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?

We believe the ability to cross reference the climate related disclosures in other documentation is particularly useful for Managed Investment Schemes. This will enable end users to find the relevant information across other documentation provided including the Product Disclosure Statement, Statement of Investment Policy and Objectives and broader MIS Manager sustainability material. This is consistent with the FMA's recent review of 'Integrated Financial Products' which concluded the scattering of sustainability related information could limit the ability of end users to access and understand the relevant information.

Further, we would like clarification we do not need to provide any disclosures in the MIS Managers financial statements, given the disclosures are at scheme, not manager, level.