

FUNDROCK NZ FEEDBACK TO PROPOSED 2024 AMENDMENTS TO CLIMATE AND ASSURANCE STANDARDS

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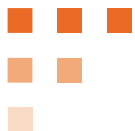
1. INTRODUCTION

This submission is made on behalf of FundRock NZ Limited (“**FundRock NZ**”), a manager of managed investment schemes (“**MIS manager**”).

FundRock NZ's principal activity is to provide fund-hosting services to investment managers who are not licensed in New Zealand to act as managers of registered schemes but wish to offer their investment strategies to the New Zealand retail market. In the retail space, FundRock NZ works with 20 different investment managers, each associated with a different scheme¹; the median funds under management (FUM) of our retail schemes is approximately NZD 150 million².

¹ (1) Technically, FundRock NZ manages 22 retail schemes, but two of them are in the process of being closed. (2) First Sentier Investors (Australia) IM Ltd manages two schemes.

² As of 30 September 2024.



2. DO YOU AGREE WITH PROPOSAL 1 TO EXTEND ADOPTION PROVISIONS 4, 5 AND 7 FOR SCOPE 3 GHG EMISSIONS DISCLOSURES FROM ONE ACCOUNTING PERIOD TO TWO ACCOUNTING PERIODS?

As a MIS Manager, FundRock NZ is only a climate reporting entity (“CRE”) in relation to the funds and schemes it manages³. As legal constructs which core purpose is to serve as an efficient shorthand for holding diversified investment portfolios, funds and schemes do not have material Scope 1 or 2 emissions, but only financed emissions, which are classified as Scope 3.

Nonetheless, FundRock NZ has elected to publish GHG emissions data in its climate statements for the financial year ended on 31 March 2024 (“FY23”) and plans to continue to do so. We note that certain other fund manager⁴ have taken advantage of the exemption, however.

FundRock NZ welcomes Proposal 1, as the diversity of approaches taken by MIS managers will provide an extended opportunity for both regulators and fund managers to evaluate whether GHG emissions data is valued by investors – should this be the case, funds which publish GHG emissions should (all else being the same) attract more interest.

3. DO YOU AGREE WITH PROPOSAL 2 TO ADD A NEW ADOPTION PROVISION 8 THAT GIVES RELIEF OF ONE ACCOUNTING PERIOD BEFORE SCOPE 3 GHG EMISSIONS ASSURANCE IS MANDATORY?

FundRock NZ strongly believes that, **for MIS managers**, relief from Scope 3 GHG emissions assurance should be extended *at least* until financial years starting on 1 July 2027.

Schemes and funds’ financed emissions are a simple weighted sum of the GHG emissions of their investees. To illustrate, suppose Fund XYZ holds the following investments⁵:

Company	Scope 1	Scope 2	Scope 3	Total Emissions	% of Capital Held by Fund	Financed Emissions (MtCO ₂ e)
A	13,581,964	4,264,778	54,980,000	72,826,742	7.15	5,207,112
B	8,488	79,310	2,117,182	2,204,980	5.93	130,755
C	61,635	2,243	10,875,724	10,939,602	6.59	720,919
TOTAL						6,058,786

Fund XYZ’s financed emissions can only be as truthful and reliable as the data provided by the investees: if Companies A, B, and C do not submit their GHG emissions metrics to assurance, no audit of the funds’ metrics can materially improve their quality.

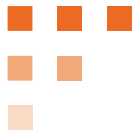
The table above also demonstrates that Scope 3 emission dwarf Scope 1 and 2 emissions by orders of magnitude: about 80% of Total Emissions are Scope 3, and this is not an outlier: the figures published in FundRock NZ’s climate statements for FY23 are similar, when not higher. It is accepted that data on Scope 3 emissions is of extremely poor quality at the present: companies rely on assumptions that are almost conjectural, and data providers⁶ are forced to make further assumptions when the data is missing, outdated, or unreliable. The assurance of deeply flawed data

³ FMCA, 461ZC(2).

⁴ E.g., Generate Investment Management Limited and Medical Funds Management Limited.

⁵ The emissions values in the table were taken from the reports used by FundRock NZ’s data providers to calculate our funds’ GHG emissions for FY23 – they are real and not made up for the purposes of this example.

⁶ Such as MSCI, ISS, and Sustainalytics.



would be misleading to investors, who would take these figures to be much more trustworthy than they are. Following on the example above, investors will look at total financed emissions exceeding 6 million MtCO₂e but are unlikely to understand⁷ that about 80% of that is borderline speculative.

FundRock NZ does not deny that data providers could improve the quality of data: data scraping and estimation methods can be improved, for example. But, as it is, such improvements would be little more than dressing up a core which is inherently irredeemable.

GHG emissions disclosures by MIS managers will only become reliable once the systems for measuring investees' emissions mature. Except for those focused on New Zealand or Australasian assets (a small part of the market), funds will have a very small allocation to New Zealand companies, and their financed GHG emissions data won't become reliable until larger financial markets require issuers to assure their GHG emissions. Unfortunately, there is no timeline for this to happen at a meaningful scale; as a compromise, FundRock NZ would recommend aligning the GHG emissions assurance requirements applicable to MIS managers to the Australian regime. With assured GHG emissions data from Australian companies available, MIS managers would be in a better position to calculate their financed emissions – data would still be far from truly reliable (for global funds, which make up the bulk of the managed funds market, are much more heavily invested in America, Europe, and Asia), but it would at least be an improvement.

Pursuant to Australian law, fund managers will be required to publish climate statements from financial years starting on 1 July 2026⁸. The current version of the *Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*⁹ sets forth that Group 2 entities (which includes fund managers¹⁰) will not be required to submit their Scope 3 emissions to assurance until the second reporting year, i.e. those commencing 1 July 2027 to 30 June 2028¹¹.

Note that Australian fund managers will start publishing climate statements one year after large Australian companies¹². This means that when fund managers calculate their funds' financed GHG emissions, assured data on Scope 1 and 2 emissions from local investees will already be available. While this is still insufficient – fund managers should not be required to submit financed emissions to assurance until investees' assured Scope 3 emissions are available –, at least it acknowledges the difference between issuers of financial assets and fund managers and the fact that the latter are entirely dependent on the former.

FundRock NZ urges the XRB to acknowledge this difference as well and delay the requirement for assurance of Scope 3 emissions **for MIS managers** to align with the Australian regime, when the underlying data will be more reliable (if marginally).

4. DO YOU AGREE THAT A ONE-YEAR DELAY FOR SCOPE 3 GHG EMISSIONS ASSURANCE IS SUFFICIENT TO ENABLE SYSTEMS TO MATURE TO SUPPORT THE AVAILABILITY OF SUFFICIENT RELIABLE DATA AND TO ENABLE INCREASED CONSISTENCY ACROSS THE ASSURANCE MARKET?

No – see the answer to Question No 3 above.

⁷ Unless they have a certain understanding of how emissions are measured – which the average investor, with no training in either finance or climate change, will not.

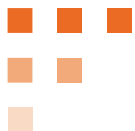
⁸ [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Bill 2024](#), 296B(5)(a), 1707, and 1707B(1)(b).

⁹ Available at https://auasb.gov.au/media/54jo41tu/ed02_24_assa_5010_final.pdf. Consulted on 10 October 2024.

¹⁰ *Proposed Australian Standard...*, Section 9(d).

¹¹ *Proposed Australian Standard...*, Sections 9(g)(ii) and 10(b) and the Diagrammatic Representation of Assurance Phasing.

¹² *Treasury Laws Amendment...*, 1707, 1707B(1), (2), and (4).



5. DO YOU AGREE WITH PROPOSAL 3 TO EXTEND ADOPTION PROVISION 2 FOR ANTICIPATED FINANCIAL IMPACTS FROM ONE ACCOUNTING PERIOD TO TWO ACCOUNTING PERIODS?

FundRock NZ is of the opinion that (in most cases) it will be impossible for MIS managers to quantify anticipated impacts because:

- The prices of financial assets reflect the collective expectations of investors about their returns for an undetermined future period, which in turn reflect all material information about the asset that is publicly available. It is impossible to segregate the impact of one piece of information (such as the market's expectations about climate change) from that of others.
- Using an arbitrary timeframe to measure the impact of events would produce arbitrary results.
- Diversified investment funds have dynamic holdings, the real-world assets that sit under their portfolios (i.e., the facilities, infrastructure, etc. connected to the investees) are geographically dispersed, and the universe of events affecting them is too broad for meaningful analysis.

Consequently, FundRock NZ will most likely rely on the exception provided by CS1, 15(b) & (d) and explain why it unable to disclose quantitative information about anticipated impacts.

Proposal 3, therefore, will not have a significant impact on FundRock NZ. We support it nonetheless, because any serious attempt at calculating anticipated financial impacts will require data that has been meticulously collected and reviewed, as well as complex calculations; any CRE attempting to complete it could use an addition year, in the interest of providing more reliable information to investors.

6. DO YOU AGREE WITH PROPOSAL 4 TO EXTEND ADOPTION PROVISION 3 FOR TRANSITION PLANNING FROM ONE ACCOUNTING PERIOD TO TWO ACCOUNTING PERIODS?

Yes. The FMA and XRB's expectations regarding transition plans are hardly clear at the present. Delaying this requirement for a year should allow both the FMA and XRB to further communicate their expectations to CREs and the latter to develop their plans (assuming the aforementioned communications were timely made).