

29 October 2024

Te Kawai Arahi Purongo Mowaho
External Reporting Board
Level 6/154 Featherston St
Central Wellington 6011

By email: climate@xrb.govt.nz

PROPOSED 2024 AMENDMENTS TO CLIMATE AND ASSURANCE STANDARDS

This is a submission by Harbour Asset Management Limited on the Te Kawai Arahi Purongo Mowaho External Reporting Board (**XRB**) consultation on proposed 2024 amendments to climate and assurance standards (the **Consultation**).

Harbour Asset Management Limited (**Harbour**) is a specialist New Zealand based fund manager with a range of retail and wholesale investment products on offer. Harbour's investment team has an average of 20 years' experience and they use research to drive the active management of Harbour portfolios, following a structured and tested process, with a careful eye to risk management. A full list of Harbour products can be found at harbourasset.co.nz

On 1 May 2024, Harbour became part of a newly-formed New Zealand wealth and asset management business called 'FirstCape'.

BNZ Investment Services Limited (**BNZISL**) is the provider of investment products for Bank of New Zealand and its customers, and is a wholly-owned subsidiary of Harbour. BNZISL investment products (for which BNZISL has prepared and filed mandatory climate related disclosure) include the following three managed investment schemes:

- BNZ KiwiSaver Scheme
- YouWealth
- Private Wealth Series

We welcome the opportunity to provide this submission and feedback on the Consultation. The submission and feedback is given on behalf of both Harbour and BNZISL.

We are generally supportive of XRB's proposed amendments, but in relation to assurance we encourage reconsideration of the timeframes in which assurance will commence, ideally to bring New Zealand into line with assurance obligations in other international jurisdictions. Further detail on this is contained in our individual submissions.

We also welcome continued discussion and engagement. Please contact Tim Morrison, Head of Legal, Risk & Compliance (Tim.Morrison@harbourasset.co.nz) if you would like to discuss any element of our submission and feedback.

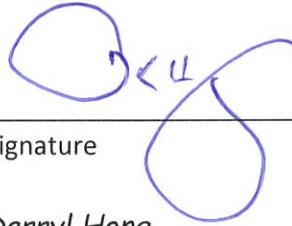
Signed for and on behalf of Harbour Asset
Management Limited and BNZ Investment Services
Limited:



Signature

Tim Morrison
Head of Legal, Risk & Compliance

Name and position



Signature

Darryl Hong
Special Counsel

Name and position

Introductory Comments

Both Harbour and BNZISL have been captured as a climate reporting entity under the climate-related disclosures regime and therefore has practical experience in the challenges of providing some of the information and data required by the Aotearoa New Zealand climate standards (**Standards**). Our response below is primarily framed from a preparer perspective as a managed investment scheme (**MIS**) manager but some of this is also applicable for other types of climate reporting entities (such as the listed companies we invest in).

Overall, we acknowledge the relief provided by the adoption provisions in the Standards thus far, and are supportive of the proposed changes in the Consultation given the practical challenges encountered. This is particularly relevant for MIS managers whose climate-related disclosures are largely dependent on information from those entities issuing the investments in the schemes we manage.

We have previously submitted on XRB consultations in the development of the Standards originally, where we expressed our view that given the inherent differences between issues Harbour and other entities within our managed funds sector face versus issues that other climate reporting entities face, there should be additional time provided for the reporting of emissions-related data.

We believe that differentiating the timing requirements of some disclosures would be beneficial for both preparers and users of these climate statements, and note that under the corresponding Australian regime, Australian lawmakers have taken this approach with asset owner entities due to report on certain matters one and a half years *after* similar reporting from large, listed entities.

We appreciate that it may be too difficult to amend the relevant New Zealand legislation as it stands, and would therefore advocate extending the timing requirements for various obligations (as proposed by XRB) as a minimum. As noted in the second XRB Consultation question below, the assurance requirement in particular represents the most challenging requirement for MIS managers given the current practices of third party data providers. Subsequently, this requirement would benefit preparers most from a longer delay period, in our view three years instead of one.

XRB Consultation question

- 1. 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?*

We agree with the proposal.

Scope 3 GHG emissions are further removed from the direct control and influence of each climate reporting entity and depending on the scope of measurement in defining the operational boundary, can involve the collation of data from a broad range of external stakeholders. This is a challenging process in practice, particularly for entities operating in complex industries with large value chains.

One of the risks of requiring the reporting of this data too soon is that it may result in the exclusion of multiple relevant scope 3 categories due to the inability to collect reliable data and subsequently lead to future revisions, and impair the comparability over time.

As an MIS Manager, the most significant and material emissions attributable to the registered schemes Harbour and BNZISL manage are those in the investments category of scope 3 emissions. This requires

the collation of emissions data from securities that comprise each portfolio (in some cases those securities can number into the hundreds). These securities may span different asset classes each with their own challenges with some examples provided below:

- Listed equities: Although many of these companies may already have GHG inventories available due to the CRD regime or voluntary efforts, MIS managers may be invested in companies in other jurisdictions where there are low rates of data coverage.
- Sovereign bonds: There may be a lack of coverage for these assets, as many governments do not measure and report emissions data.
- Derivatives: This is an asset class that is not currently covered by the PCAF Standard but may form a significant proportion of some portfolios due to the prevalence of exchange traded funds and similar financial instruments.
- Unlisted equity or debt: Private companies do not tend to report as much investor related information compared to publicly listed companies, and therefore climate data is more difficult to source for private companies.

To help address some of these data coverage challenges, MIS managers may use estimates based on proprietary methodologies or those from ESG data providers which they utilise. These estimates may provide a more accurate representation of a particular climate metric (such as total financed emissions) but may fail to meet the standards required from an auditor perspective when undertaking an assurance process.

The above emphasises the need to provide enough time for the level of company reported emissions data to mature so that MIS managers can draw from more accurate and reliable data sources that can give auditors and end users of the climate statements greater certainty over the data disclosed.

XRB Consultation question

2. 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?

We agree with the proposal.

However, please also see our answer to XRB consultation question #3 below, which sets out our rationale for potentially increasing the one-year relief for a longer period.

The primary reasons for supporting Proposal 2 are as follows (which we expect are consistent with feedback XRB will have heard from other industry groups (which Harbour and BNZISL support)):

- (a) Fund managers (like Harbour and BNZISL) do not report on their own emissions according to the legislation. Instead, the MISs that they manage report on the aggregate emissions of the companies and other investment vehicles their MISs invest into (given all other emissions sources tend to be immaterial). As a result, Harbour and BNZISL use third party data providers (**Data Providers**) that collate such emissions data.

We consider there are inconsistencies with data provided by such companies and investment vehicles, as well as inconsistencies with data collection (and verification) methods available globally from Data Providers.

This makes obtaining assurance difficult, as assurance providers (**Assurance Providers**) themselves struggle with such issues, potentially resulting in heavily qualified assurance findings.

We submit that qualified assurance findings give little comfort to investors, and actually serve to undermine the climate reporting process.

- (b) In addition, we have noted that there are often significant time lags from Data Providers between when updated emissions data is made publicly available from companies and investment vehicles, and when it is reflected in the Data Provider's database.

This in itself hinders the assurance process, until such timing issues can be rectified.

- (c) We believe there is a shortage of Assurance Providers providing the necessary services to fund managers in New Zealand. As a result, assurance costs are expected to be high, and in many instances these costs will ultimately fall directly on the investors of the relevant MISs.

We consider it beneficial to delay mandatory assurance requirements in New Zealand until the development globally of appropriate assurance practices.

- (d) Many of the companies and investment vehicles Harbour and BNZISL invest into may not be reporting on climate-related matters presently, or at best are very new to such reporting. As a result, the value to investors of providing climate-related data with assurance is, in our view, limited.

We hope (and expect) this situation will improve over time as market participants become more familiar with climate-related issues, and as Data Providers improve their data collection capability.

But until that point is reached it is somewhat ambitious to believe that New Zealand climate related disclosures can be of a standard that warrants assurance.

XRB Consultation question

3. *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?*

As noted above in our response to XRB Consultation question 2, we agree generally with the creation of new Adoption Provision 8 which gives relief of one accounting period before scope 3 GHG emissions assurance is mandatory.

However, we suggest that XRB re-considers whether a one-year delay is sufficient.

As noted in our response to XRB Consultation question 2, there are a number of current issues involving climate-related data, Data Providers and Assurance Providers.

We are hopeful that many of these issues will improve over time, particularly driven by improved practices amongst companies and investment vehicles, Data Providers, and Assurance Providers as a result of global jurisdictions implementing and regulating such practices.

This may take a number of years, and we are aware that some of our New Zealand peers and industry groups have gone into detail in their own submissions on the XRB Consultation around expected timings.

If, as our peers believe likely, improvements to practices amongst companies and investment vehicles, Data Providers, and Assurance Providers will manifest themselves satisfactorily in late 2025 or during 2026 then we believe that the adoption provisions for the assurance of emissions should be delayed for three years instead of one year.

XRB Consultation question

4. Do you agree with Proposal 3 to extend Adoption Provision 2 for anticipated financial impacts from one accounting period to two accounting periods?

We agree with the proposal.

For many climate reporting entities, scenario analysis based on global temperature pathways has been a relatively recent and technical exercise that can be subject to significant uncertainty and variability in outcomes.

The outputs from this type of analysis can be heavily sensitive to small changes in modelling assumptions given the long time horizons involved and the complexity of measuring the impact of climate events on business and/or portfolio value.

The quantification of these anticipated impacts is the most challenging aspect since it can be difficult to arrive at a specific dollar value or even a reliable range that is not too broad. This is why qualitative measurement has been a more useful starting point that gives users a general idea on the severity of identified climate impacts without being prone to significant modelling errors in financial estimates.

For both Harbour and BNZISL, a common method for estimating the anticipated financial impact of portfolios in the schemes we manage is calculating the climate value at risk. This metric tends to follow methodologies devised by Data Providers to estimate the exposure of funds to particular climate risks and opportunities such as physical weather hazards and policy-related transition risks.

However, given these methodologies tend to rely on nascent climate models and company level information, we believe that we would have more confidence over the utility of this metric in future years once the inputs have reached a greater degree of maturity.

In addition, although it is not included as a proposal in this Consultation, we would also acknowledge the benefit of extending Adoption Provision 1 for current financial impacts especially for MIS managers.

Many of the tools we can leverage from Data Providers tend to be related to either forward looking climate analysis or backward looking portfolio footprinting. However, analysis of actual climate

impacts represents a gap that in practice requires in-house research that may be highly time consuming for portfolios with hundreds of securities.

At the fund level, these impacts are reflected in the changing market value of our investments in each company or investment vehicle affected, which flows through to the overall return delivered to investors. The attribution of these impacts is difficult to quantify, given the many other non-climate-related impacts that the companies or investment vehicles would face over the period.

Therefore, any additional time or guidance on this disclosure requirement would be helpful in providing more meaningful (and useful) information for end users.

XRB Consultation question

5. Do you agree with Proposal 4 to extend Adoption Provision 3 for transition planning from one accounting period to two accounting periods?

We agree with the proposal.

Transition planning is an important forward-looking assessment that takes time to properly develop, given its strategic nature that depends on forecasting analysis and any relevant metrics and targets climate reporting entities adopt to measure progress.

Given the nascency for some climate reporting entities of establishing a reasonable baseline of its climate exposure, this presents difficulties in appropriately setting targets and plans until GHG emissions inventories, for example, are fully measured and reported.

We note that regulators in recent years have been closely scrutinising climate-related claims made by companies to mitigate any greenwashing risk. As a result, until companies are able to reliably measure and substantiate their strategic ambitions, there would be high regulatory/legal risk involved in any disclosure relating to transition plans.

Although the use of disclaimers and being transparent about the various assumptions and limitations involved help to reduce this risk, providing additional time for the climate data and modelling landscape to mature would ultimately be a better solution in our view for climate reporting entities facing challenges in this area.

For both Harbour and BNZISL, our investment schemes comprise multiple funds, each with their own respective investment strategy. Some of the issues with measuring data baselines have been mentioned in the prior Consultation questions and have been one of the contributing factors in not adopting climate-related targets or transition plans for some of these funds. We expect this data issue to progress significantly over the next couple of years as the underlying investee company data landscape improves as well as the processes to collate and analyse this data at a portfolio level by Data Providers.

We would therefore be much better placed to meet this disclosure requirement following the proposed extension of the adoption provision.

