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Dear Ms Mackenzie

Re: Consultation on “Proposed 2024 Amendments to Climate and Assurance Standards”

This is a letter from the Boutique Investment Group (“BIG”, “we”), on behalf of the 23 fund managers and investment managers listed in Appendix 1. No part of this submission is confidential.

We are grateful that the External Reporting Board (XRB) has responded with urgency to emergent issues with climate reporting by considering amendments to the adoption provisions of the Aotearoa New Zealand Climate Standards.

We fully support all the amendments to the adoption provisions as proposed by the XRB, except for the one-year relief from assuring Scope 3 emissions. We believe a three-year delay is necessary to provide adequate time for the issues that impede our ability to obtain assurance to be largely resolved.

In terms of publication of GHG metrics:

- We support delaying publication in year one of delaying assurance, as proposed by the XRB;
- Our preference would be to have the option of delaying publication in year two of delaying assurance because the flaws in the data will make it on balance better not to publish. However, we would not object to reporting with a caveat that data quality may be limited and that assurance may not have been completed, if this was considered useful; and
- In year 3 of delaying assurance, we accept that we should report GHG metrics with a caveat that data quality may be limited and that assurance may not have been completed.

Our submission outlines our reasons for seeking a lengthier delay for assurance for Scope 3 emissions than proposed by the XRB (Proposal 2).

For the avoidance of doubt, in our context “Scope 3 emissions” means Scope 1, 2 and, if available, Scope 3 emissions of the entities that our funds invest in.

In addition to the proposed amendments to the adoption provisions, we believe that the challenges and lessons learned from the initial climate reporting process necessitate a comprehensive review of the overall regulatory framework for climate reporting. An implementation review or Government review should be conducted as soon as possible. Appendix 2 provides some preliminary considerations for this review.

Balance between benefit to consumers versus burden on industry is at the heart of the FMC Act

The climate reporting regime is embedded in the FMC Act. The purpose statement in section 3 seeks to “promote the confident and informed participation of **businesses, investors, and consumers** in the financial markets”. Confident participation by all three is not possible unless a careful balance between their respective interests is struck.

What this balance means is then expanded upon by the additional purpose statements in section 4 of the FMC Act. There are:

- What might be regarded as two consumer friendly purposes, namely, to:
 - “provide for timely, accurate, and understandable information to be provided to persons to assist those persons to make decisions relating to financial products or the provision of financial services;” and
 - “ensure that appropriate governance arrangements apply to financial products and certain financial services that allow for effective monitoring and reduce governance risks;” and
- There are also what might be regarded as two business friendly purposes, namely to:
 - “avoid unnecessary compliance costs”; and
 - “promote innovation and flexibility in the financial markets”.

When considering the merit in amending the adoption provisions it is appropriate to consider:

- The extent to which assurance of Scope 3 emissions contributes to the information in climate reports being meaningful for consumers, given data quality and timeliness issues discussed below; and
- What the regulatory burden will be on business (in terms of cost and distraction from core business and innovation) if assurance is required on Scope 3 emissions while there are data quality and timeliness issues. (We expand on these points below.)

Benefits to consumers

The current data is highly unreliable and could mislead consumers about climate risks.

As context, fund managers are primarily not reporting on their own emissions but on the emissions of the entities that funds invest in. A typical fund may include hundreds of different entities in different jurisdictions. To ensure more reliable point in time reporting, we recommend that there needs to be:

- Improvement in data from a sufficient number of investee entities to have greater certainty and reliability of our reporting numbers; and
- published information by investee entities needs to be collated and verified by data aggregators in a timely manner.

Currently there are significant problems with each of these issues that we expect will significantly improve within a two-to-three-year time horizon.

If we publish such inconsistent and variable data, assurance is likely to be counterproductive. While an auditor can verify our methods, it won't make the data any more accurate. Assurance may falsely reassure the 'end user' about the reliability of speculative information.

The value to the client in having data assured in the short-term is low to net negative because of its potential to create inappropriate confidence in the data.

Data collection issues

One of the most significant issues impacting on the ability of fund managers to provide reasonably accurate reporting is that key data providers that industry is depending on are not yet able to collect data with sufficient timeliness to satisfy an audit.

As an example, the WACI from a major data provider for the NZX50 dropped from 54.06tCO₂e/NZDSales in March 2024 to 48.73tCO₂e/NZDSales in June 2024. This was due to the data provider not identifying until some point between March and June 2024 that Infratil had sold its stake in Trust Power in 2022.

Currently only one of the major data aggregators incorporates published data into their models within 12 months of it being published by the reporting entity. As the Infratil example illustrates, we expect large parts of reported information may be up to two years old, and the impact of stale data can be very significant.

Typically fund managers have the capability to identify some of these issues where they occur in local investee companies that they know well, but when it comes to offshore entities, where they may be less familiar, this is less likely.

Our understanding is that the data providers are moving as rapidly as they can improve the speed of data collection, verification and publication. This differs from provider to provider.

Some providers have advised that in early 2025 they will be able to confirm their road map for the commitment of incorporating data within 3 months of it being published by the entities. Even if the road map will be committed to in early 2025, we do not expect that it will be implemented until 2026.

Lack of “real” data

Where investee entities are not yet reporting their emissions, data aggregators are providing estimates for those entities based on generic figures.

The effectiveness of our reporting depends on the balance between reported data and estimates. If we rely heavily on estimates, the coverage of funds, and accuracy and reliability of the estimates become crucial factors. While UK and New Zealand entities are required to report, and some global entities are doing so on a voluntary basis, a significant portion of funds remain unreported. It is worth noting in this regard that diversified funds make up the majority of KiwiSaver money. Typically these include a substantial portion of offshore entities that are not yet reporting, and therefore estimates make up a large portion of what we are reporting.

Regarding reliability of estimates, many data providers will not share their methodology to managers, citing proprietary concerns. Consequently, the reliability of these estimates cannot be easily verified or assured. Anecdotal evidence suggests that the estimates generated by some data providers may produce counterintuitive results. For example, one major New Zealand bank, which relies on estimates, has been reported as having a significantly worse climate risk profile than another major New Zealand bank, which publishes its own reports. Intuitively, we would expect these two organizations to have similar climate risk exposures based on what we know about these businesses. Where we see outcomes that seem strange with respect to entities that we are familiar with, this makes us less confident in the estimates relating to the many entities that we know less about.

As more jurisdictions are required to provide mandatory reporting, the level of uncertainty caused by having to rely on estimates will reduce (see the ‘Timeframes’ section below). Proposed regulation in California is possibly the most important in this regard as it will capture most large American businesses that global funds invest in.

Data volatility

- Even where there is reported data for entities, data can move significantly over short periods of time. Examples include: 80% of FTSE100 companies have restated their emissions; and
- The WACI reported for Next DC (a listed Australian data centre provider) by a major data provider increased from 0.27 tCO₂e/NZDSales in March 2024 to 11.95

tCO2e/NZDSales in June 2024, due to a change in calculation methodology by the data provider.

We expect these ongoing challenges with reporting and data inconsistencies to continue to cause complexities and fluctuations in data supporting a delay in comparisons of metrics and assurance while processes mature and stabilise.

Burdens to industry

Managers that chose to report emissions and obtain assurance in year one experienced significant costs and complexity attempting to manage the issues described above.

To combat these challenges some managers needed to develop additional processes and hire extra staff to validate data. In addition, auditor fees were significantly higher than would be normal because of attempting to work through the complexity. While this is possible for larger entities such as banks, it becomes increasingly unaffordable for other businesses given their size and structures. This is disproportionate for smaller entities, making early assurance impractical.

Aside from the direct costs of meeting climate assurance challenges, it is a major distraction from being able to innovate and deliver core business. This is a significant opportunity cost for business and clients.

Due to the developments globally and the need to upskill and train staff of audit firms, one firm has noted that in Australasia they are short 100 audit professionals to meet demand. We can expect the cost and complexities with assurance to decrease over the next two to three years.

Timeframes

The table below shows the timeline of events that we believe will improve the overall quality of data. Some of the challenges identified with assurance will dissipate in two to three years:

Event	Impact	Date
Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and the Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022	Requires UK institutions to publish emissions information. This captures some entities that global funds have exposure to.	2023

Data providers obtain 3 rd party certification to demonstrate robustness of process (SOC 2 type reporting).	The more comfortable that auditors can get that the data in data provider tools are working as expected, the easier the assurance process will become for all parties.	Early to late 2025
Corporate Sustainability Reporting Directive (CSRD)	Mandates EU businesses to disclose sustainability information. Many global funds may invest in entities subject to this regime.	First reports published in 2025
Data providers improve their data collection, validation and publishing timeframe, e.g. process made more efficient and completed in a shorter time period than date of publication plus 12 months.	Key issue identified causing a barrier to assurance is stale data. These data provider improvements are critical for assurance.	Estimated that this will commence in late 2025 or early 2026
Treasury Laws Amendment (Financial Market Infrastructure and Other Matters) Act 2024	As noted in XRB paper this Bill will govern Australian entities, which will be pertinent to Australasian/dual listed funds.	First reports published 2026
Senate Bill 253	Will require companies who do business in California and have an excess of \$1 billion in revenue to produce climate reports. US businesses doing business in California make up a large percentage of global funds. This will considerably improve coverage.	Reporting for scope 1 and 2 scheduled for 2026 And scope 3 2027 However, the Bill is subject to legal challenge

Resolution to concerns that emissions data for sovereign entities is unreliable	No solution.	unknown
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Summary

In conclusion, the current approach to emissions data and assurance presents significant challenges. Data providers currently provide outdated information. In addition due to large numbers of investee entities not yet reporting, large parts of data models are made up of estimates that are difficult to verify. Improvements to both of these issues are likely in late 2025 through to 2026.

We believe that to address these issues, the adoption provisions should allow for the assurance of emissions to be delayed for a further **three years** instead of one year.

As noted above, if it is believed that it is helpful, we are happy to publish metrics with data quality warnings, while we are delaying assurance.

We again commend the XRB for their timely response to these reporting issues.

Yours sincerely



Simon Haines
Chair Boutique Investment Group

Appendix 1 – Organisations supporting this letter

AMP Wealth Management New Zealand Limited

Aurora Capital Limited

Booster Investment Management Limited

Clarity Funds Management Limited

Consilium NZ Limited

Fisher Funds Management Limited

Fundrock NZ Limited

Generate Investment Management Limited

Harbour Asset Management Limited

Kernel Wealth Limited

Mercer (N.Z.) Limited

Milford Funds Limited

Mint Asset Management Limited

New Zealand Funds Management Limited

Nikko Asset Management New Zealand Limited

Octagon Asset Management Limited (an investment manager, not a licensed MIS Manager)

Oyster Management Limited

Pathfinder Asset Management Limited

Pie Funds Management Limited

Salt Investment Funds Limited

Simplicity NZ Limited

Smartshares Limited

Trust Investments Management Limited

Appendix 2 – Observations from our first set of climate reports and possible improvements for fund managers

These observations are **not full and final** but provide some visibility of the complexity for managers to apply the standards as opposed to a listed investment company in year one. We look forward to providing more feedback later.

For fund managers many of the requirements are highly onerous, without producing useful information for 'end users' or supporting transition. In particular:

- While detailed discussion of internal process, governance and strategy may be relevant for listed investment companies, it is less useful for investment managers who primarily report on portfolio level climate risks. These aspects are important, but in the current format lead to considerable focus on these areas which may obscure clarity, usefulness of the reporting and associated risks and opportunities of the funds.
- Scenario analysis for fund managers is significantly more complex than for other entities. As we must consider which parts of a fund (which may consist of hundreds of investee entities) to focus on and why. The framework and TCFD lacks clear guidance on this process. Additionally, the outputs while interesting at a point in time, are less relevant than for other reporting entities as investment managers can adjust the investment portfolio at any point in time.
- Many of the standards/TCFD methodologies are written with the assumption that we are reporting on our own emissions and make limited sense in our context e.g. reporting on our own capital deployment decisions based on risks that we identify.
- There is no consistency in terms of how fund managers report.
- Emissions metrics lack context against indices.

In light of some of the challenges discussed above, we are interested in exploring an alternative approach for investment managers to provide information that is:

- Less onerous to collate and that makes more sense for our context, while also being clearer for our 'end users' and more workable with the desired outcomes of the standards; and
- The possibility for more directed versions of the standards for different actors in the market, for example listed investment companies versus fund managers.