

October 31st 2024

Submission Response to XRB Consultation *Proposed 2024 Amendments to Climate and Assurance Standards*

The NZ Shareholders’ Association (“NZSA”) appreciates the opportunity to comment on the Consultation paper related to amendments to the existing climate-related disclosure (CRD) regime in relation to CS2.

We also appreciate the extension of time to 9:00am, November 1st as per your email response.

NZSA is a non-profit entity that advocates for all investors, regardless of age or experience. Our aims are to protect, enable and reward investment, and to promote fair markets.

NZSA'S VISION IS TO BE A TRUSTED AND RESPECTED VOICE FOR ALL RETAIL INVESTORS

OUR AIMS:

- To represent, protect and promote the interests of investors in shares and other Investment Products
- To promote and encourage an active, efficient, fair and transparent market for raising capital and trading shares and other Investment Products

...supported by our Values

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|---|---|--|---|--|--|
| Independence | Advocacy | Respect | Inclusiveness | Evidence-based | Outcome-focused |
| <i>Our independence is our key point of difference, driving our credibility and objectivity</i> | <i>Our advocacy supports all investors and the constructive improvement of listed markets</i> | <i>The way we behave earns respect</i> | <i>We are a friendly, welcoming space for all investors, no matter their background, status or experience</i> | <i>We make decisions based on evidence and best practice</i> | <i>We remain focused on delivering our mission</i> |

NZSA Context and General Policy Commentary

- CRE Scope:** NZSA has commented previously on the current definition/scope of a climate reporting entity (CRE). The definition refers to ‘market capitalisation’, thereby excluding any unlisted company from a CRD reporting obligation.

There are many large, unlisted companies in New Zealand that would otherwise be subject to the CRD regime.

If the objective of the regime is to identify baseline GHG emissions and create transparency around the transition/adaptation plans to reduce them, we consider that excluding a significant portion of New Zealand business does **not** support optimal achievement of this outcome.

- a. Furthermore, the scope for “regulatory arbitrage” remains significant in this context, acting as a disincentive for companies to consider listing on a regulated stock exchange and creating a long-term impact on New Zealand’s capital productivity and public investment opportunities.
 - b. We have previously advocated for an increased threshold level based on a combination of total assets revenue and employees, while removing the somewhat arbitrary status as to whether a company is publicly listed or not.
 - c. We recognise that the definition of a CRE is not within the scope of the XRB, nor this consultation – but continue to view this as a key factor in determining appropriate settings for climate-related (and other environmental) disclosure.
2. **NZSA Environmental Sustainability Policy:** NZSA has assessed each listed company on its climate-related disclosures (and other environmental sustainability disclosures) since late 2022. Our policy, determining our assessments, can be viewed [at this link](#).
3. **Developing issues:** These assessments have indicated the following key issues (note – this is not an exhaustive list):
- a. *Assurance provisions:* The underlying capability relating to the provision of limited assurance services in relation to CRD continues to develop. However, we do not believe that the industry has yet reached full capability maturity and is not yet able to offer a consistent service approach. Providers operate to different standards, depending on their own context.
 - b. *Investor development:* The disclosures to date have not yet captured the imagination of many investors. NZSA believes that over time, both CRE’s and investors will determine the critical elements of the disclosure regime, with CRD’s becoming more focused.
- NZSA considers that the CRD framework is a critical extension of a transparent ‘risk and opportunity’ framework, similar to other key strategic and business risks, allowing investors to make an informed judgement as to the impact of climate risks on business strategy.
- c. *Scope 3 maturity:* In line with our initial submissions on CRD in 2022, NZSA is supportive of a ‘flexible’ approach to determination of Scope 3 emissions, given the potential for mis-reporting created by lack of transparency within international supply chains.
 - d. *Costs:* NZSA estimates that the first year cost of compliance for most listed issuers is approximately \$500-\$600k. While we forecast that annual costs are likely to reduce into the longer term, as CRE’s establish data collection processes and improve their disclosure efficiency, this has been a source of disquiet for many CRE’s and investors alike.
 - e. *Global alignment:* As other jurisdictions expand their climate-reporting requirements, NZSA believes it is critical for NZ to maintain a degree of consistency with these requirements. This may require review of benchmarks and metrics over time.

4. **A ‘Broad’ Environmental approach:** NZSA believes that the governance, strategy, risk and opportunity components of the CRD regime should (ultimately) be considered for a wider scope of environmental sustainability disclosures that extend beyond climate change. Different companies, operating in different industries, are facing different environmental sustainability issues (eg, water pollution, soil pollution, land use) that should be of interest for investors.
- a. We note the focus on TNFD reporting (nature-based reporting framework) that is emerging amongst some European organisations. We consider that a **pragmatic, simple, TNFD-based** framework would add value to ongoing environmental sustainability disclosures.
 - b. Some issuers in NZ have developed the climate-reporting within the construct of a broader sustainability framework. NZSA considers this a best-practice approach in terms of providing a holistic view for investors.
5. **We’re all learning:** NZSA recognises that all stakeholders (regulators, issuers, investors, auditors) continue to develop and refine their capability when considering climate-related disclosures.

In this context, and our desire for continued global alignment expressed in 3(e) above, NZSA is supportive of the intent of the XRB to undertake a post-implementation review during 2025, and will offer support as required to the XRB.

Consultation Response

6. **Overall comment:** NZSA notes the comment within the consultation document that the XRB *“designed the disclosure requirements to be less prescriptive and more flexible in general to meet entities where they were at in terms of their reporting journey.”* NZSA considers this a key statement in the context of achieving practical outcomes that further the objectives of the CRD regime.

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?

- 7. NZSA is generally supportive of these proposals.
- 8. Our assessments during 2023-24 have shown that while some CRE’s have established robust capability in the measurement of GHG emissions, their ‘journey’ started some time before the CRD regime. An extension of time will allow those CRE’s to further develop their capabilities.
- 9. We consider that some caution should be exercised with regard to the ongoing development and timetables associated with international jurisdictions, particularly Australia. In line with the comments we made in 3(e) above, this may require a further accounting period extension to be considered for some CRE’s.

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?

- 10. NZSA supports this XRB proposal.

11. NZSA believes this will allow further maturity of capability for the measurement of scope 3 emissions within assurance providers as per our comments in 3(a) above.
12. While not considered within this consultation, we also would support the removal of director liability provisions associated with scope 3 GHG reporting. NZSA believes this would lead to greater transparency and discussion on wider environmental impacts.

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?

13. Broadly, yes.
14. However, we continue to encourage the XRB to consider emerging data sets and standards evolving as a result of the Australian disclosure regime.

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?

15. While NZSA is supportive of the extension of time, we also believe that two other factors should be considered by the XRB to enhance the practicality of providing meaningful disclosures.
 - a. Consider the removal of director liability associated with financial impact disclosure
 - b. Consider the disclosure of “ranges” rather than specific financial outcomes.

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

16. As per our submission of September 2022, NZSA believes investors in a CRE should be able to receive assurance that an appropriate transition plan, linked to long-term strategic outcomes, is being developed or has been completed.
17. We recognise the difficulty a CRE may have in determining a detailed transition plan, in the absence of understanding financial impacts and prioritising impacts on that basis.
18. Nonetheless, we believe it should still be possible for a ‘high-level’ plan to be determined within the timeframe contained in the current adoption provision.
19. Therefore, while supportive of the extension of the timeframe in the adoption provision proposed by the XRB, we believe that the requirement contained in clause 16 of the Exposure Draft should be strengthened from a ‘*description of its progress*’ to also include;
 - a. a description of the key items and/or factors that the CRE expects will be contained within a future detailed transition plan
 - b. An approximate timeframe within which these items or factors will be considered.
20. We believe this approach will allow investors to see disclosure on the ‘material matters’ being considered by a CRE, without committing a CRE to a fixed plan.

21. By way on analogy, NZSA considers this is no different to a company providing earnings guidance or an 'outlook statement' for the coming financial year.

Regards,

A handwritten signature in blue ink, appearing to read 'O Mander', with a large, sweeping flourish extending to the right.

Oliver Mander
CEO, NZ Shareholders' Association

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