



EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

19 October 2016

Hamish MacDonald
Head of Policy and Legal
NZX Limited
PO Box 2959
Wellington
New Zealand

Email: consultation@nzx.com

Dear Hamish

Consultation Paper: *Review of the NZX Corporate Governance Code*

The External Reporting Board (XRB) is pleased to have the opportunity to comment on the NZX's Consultation Paper: *Review of the NZX Corporate Governance Code* (Consultation Paper) and the accompanying *Proposed updated NZX Code* (proposed NZX Code).

The XRB is an independent Crown Entity responsible for financial reporting strategy and the development and issue of accounting and auditing & assurance standards in New Zealand. The XRB also has an interest in the wider corporate reporting area, including the reporting of non-financial information in corporate financial reports, where these meet the needs of users of general purpose financial reports (GPFR).

General Comments

We support the NZX's aims to streamline corporate governance requirements in New Zealand, improve transparency for investors, drive better engagement in the markets and strike an appropriate balance between promoting good corporate governance practices while ensuring sufficient flexibility for issuers.

More importantly, good corporate governance practices (and their disclosure) are key contributors to high quality financial/corporate reporting and to high quality audits. High quality financial/corporate reporting and high quality audits build public trust and confidence and support financial stability. This, in turn, will enhance the international reputation of the New Zealand capital markets.

The NZX has a critical role, through its corporate governance requirements in the NZX Code, to promote good corporate governance practices and disclosure by listed issuers, so as to further enhance the credibility and nature of financial/corporate reports, audit quality and New Zealand's international reputation. We strongly encourage the NZX, in this review of the NZX Code, to use this opportunity, and future review opportunities, to ensure the requirements

of the NZX Code are robust, up-to-date and reflect emerging international trends and best practice.

Specific Comments

Our comments focus on *Principle 4: Reporting and Disclosure* and *Principle 7: Auditors*. We make no comment on other aspects raised in the Consultation Paper and proposed NZX Code.

Principle 4: Reporting and Disclosure

In general, we support the NXZ's proposals under *Principle 4: Reporting and Disclosure*, in particular, the proposal for robust disclosure by issuers of information on financial and non-financial matters and indications of how non-financial targets are measured.

In relation to the Commentary on non-financial reporting under Principle 4, the NZX proposes that in order for investors and other users to be able to easily compare information, if issuers choose to report on ESG factors, they should either:

- (a) report against the framework that NZX proposes to issue in a guidance note on ESG reporting; or, alternatively
- (b) report against the Global Reporting Initiative (GRI) guidelines.

We appreciate the NXZ's wish to allow comparability between the information disclosed by New Zealand issuers with information disclosed by other issuers, including those disclosed by international issuers. We strongly recommend the disclosure framework be flexible so that issuers can determine the appropriate mechanism for their disclosure of information to investors and stakeholders.

We note the NZX proposal to develop its own voluntary "ESG" reporting guidance based on the Sustainable Stock Exchanges Initiative's (SSEI) model guidance. We recommend any such proposed guidance, similar to the SSEI's model guidance, be principle-based and flexible to enable issuers to adapt and modify disclosures to meet their own circumstances. While the SSEI uses the traditional term "ESG", the term is used interchangeably with the term "sustainability" and is intended to encompass a broad set of environmental, social and governance considerations that impact an entity's ability to execute its business strategy and create value. The SSEI's model guidance also refers to a number of international reporting initiatives, not just those of the GRI. In this context, and as acknowledged by the SSEI, we note the traditional term "ESG" is not the current nomenclature that is used to describe the wider aspects of reporting.

In this regard, and particularly in relation to the proposed Commentary on non-financial reporting, we recommend the NZX not prescribe, or limit, the manner in which issuers may wish to report and present their non-financial information. Instead, issuers should be permitted to report against internationally developed and widely accepted frameworks, in terms of the content elements, measurements used and presentation of the information, provided they specify the framework(s) used and extent of compliance. The GRI guidelines should be one such framework that an issuer may use: it should not be the only alternative that is permitted.

Not being overly prescriptive is important during this early stage of development in non-financial reporting to allow the use of a framework of reporting that best suits the issuer in

communicating its information to users. The value of non-financial disclosures (for example, the content elements of “ESG” and their risks) lie not in their disclosure but in the manner in which an issuer can connect those elements to its value creation process, financial performance, strategy, prospects, risks and longer term sustainability. The reasons why the issuer considers the elements disclosed are relevant and material to the issuer is vital if the information is to be of value to users of the information. Each issuer has unique requirements in this regard and the reporting needs to be relevant to each issuer.

While we support the NZX not being overly prescriptive on the disclosure framework that issuers may use for reporting non-financial information, we do note the increasing use of the “comply or explain” basis for reporting such information in several jurisdictions, the most recent is that of the Stock Exchange of Hong Kong’s move from a voluntary basis to a “comply or explain” basis for issuers disclosing ESG information using the guidance issued by the Stock Exchange of Hong Kong. We strongly encourage the NZX to ensure the proposed requirements of the NZX Code (and any subsequent guidance) in relation to non-financial reporting are robust, up-to-date and reflect emerging international trends and best practice.

Principle 7: Auditors

We support the NZX considering its existing mandatory requirements for audit partner rotation when NZX commences a broader review of the Listing Rules, to ensure that the requirements are aligned with the audit partner rotation requirements of the XRB’s professional and ethical standards when these are finalised. We make no comment on the rotation of audit firms.

If you have any queries or require clarification on any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely



Graeme R Mitchell
Chairman
External Reporting Board