

29 September 2022

By online submission

Attn: New Zealand External Reporting Board
April Mackenzie, Chief Executive Officer

ASIFMA Letter regarding the Exposure Drafts (EDs) of the Aotearoa New Zealand Climate Standards

The Asia Securities Industry and Financial Markets Association (“ASIFMA”)¹, on behalf of its members (“the Industry”), appreciate the leadership and commitment shown by Aotearoa New Zealand towards climate change action and the efforts undertaken by the External Reporting Board (XRB) in developing the Exposure Drafts (ED) of the Aotearoa New Zealand Climate Standards.

ASIFMA is actively engaged with the APAC finance industry and monitors global and regional developments in relation to sustainable finance; with particular interest in the development of carbon markets, taxonomies, climate disclosures, climate risk and nature related risk (biodiversity).

However, ASIFMA perceives there may be aspects of the proposed Exposure Drafts that may create challenges for corporates and financial institutions. Included in this letter are a few high-level points pertaining to the Exposure Drafts (ED) for your consideration.

Members appreciate the progress XRB has made on these Exposure Drafts and understand the urgency of the global climate agenda. We would encourage XRB to consider alignment with ‘finalised’ disclosure requirements from international standard setters (IIS). Members acknowledge the Exposure Drafts leverage the draft ISSB framework ([IFRS S1](#) and [IFRS S2](#)) but are concerned that the final International Sustainability Standards Board ([ISSB](#)) position may differ from the ED.

This may result in fragmented requirements between New Zealand and the rest of the world which could ultimately prevent capital flowing into sustainable finance investments needed in the country. We suggest XRB await the finalised ISSB framework prior to publishing the Exposure Drafts to ensure global alignment and a coordinated approach to climate disclosures.

Specifically, members have expressed concerns that the timing and implementation of requirements under the Exposure Drafts are ahead of other jurisdictions. Leading to:

- 1) **Front running international standards:** As mentioned above, ISSB standards have not yet been finalised, therefore, concerns have been raised that the XRB requirements are front running international standards and could create inconsistencies and comparability issues across jurisdictions. This could also add extra complexity to Banks’ operational risk.

¹ ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive, and efficient Asian capital markets that are necessary to support the region’s economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

- 2) **Divergent home / host requirements for International Banks:** The difference in requirements will impact international banks and those operating in multiple jurisdictions as disclosure requirements required by the home regulatory regimes may differ from that of New Zealand.

The implications of this lack of consistency may result in conflicts of law between the jurisdictions, and an unlevel playing field. Furthermore, it could make it difficult for investors and divert the flow of capital away from the New Zealand market.

- 3) **Inability to leverage global operating models:** Inconsistent regulations also puts at risk the ability of Banks to utilise global operating and business models – which if unable to be used, will ultimately disadvantage local clients as they are unable to take advantage of the benefits provided by leveraging a global operating model. It also adds complexity and inconsistencies across locations.
- 4) **Balance:** We believe it is important that the implementation of new disclosure standards finds the right balance between addressing the growing investor demand for disclosure and companies' capacity to provide such disclosures.

Ultimately climate change is a global challenge and we need a globally consistent approach to tackle the issue, and we support IOSCO' position 'to cooperate in developing, implementing and promoting adherence to internationally recognized and consistent standards of regulation...' ([IOSCO Good Practices](#))².

Given many banks and financial institutions are still developing their understanding of disclosure requirements we encourage XRB to take a **longer phased approach** towards the implementation of the requirements under the Exposure Drafts. Currently, the NZ CS2 outlines one year adoption relief for some disclosure requirements, however a longer phased adoption approach would be beneficial to allow methodologies to mature, for greater standardization to be developed, data availability to increase and for consistency across jurisdictions to grow.

In addition, we recommend XRB to consider adding a statement to the proposed standards where jurisdictions could adopt the concept of '**safe harbours**' to assist companies in providing information to the best of their knowledge, whilst being protected from liability – especially in the areas of Scope 3 emissions, transition plans, and scenario analysis, where there are known challenges such as double counting, variability in methodologies, and incomplete guidance and reporting.

ASIFMA believes this approach will facilitate companies to provide decision-useful emissions estimates, estimated sustainability metrics and forward-looking information (e.g., science-based targets) which will help improve the overall quality of disclosures.

We thank you for considering our comments and would be happy to meet and discuss any of the issues raised and provide clarity on our response.

Should you have any questions, please do not hesitate to contact Diana Parusheva (dparusheva@asifma.org), Head of Public Policy and Sustainable Finance at ASIFMA.

Sincerely,



Diana Parusheva
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Asia Securities Industry & Financial Markets Association (ASIFMA)

² <https://www.iosco.org/news/pdf/IOSCONEWS633.pdf>