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External Reporting Board
Level 6/154 Featherston Street
Wellington, New Zealand

By email only: sustainability@xrb.govt.nz

Request for information: The international alignment of climate reporting

Background

1. NZX Limited (**NZX**) submits this response to the External Reporting Board's (**XRB**) request for information relating to the international alignment of climate reporting (**Consultation**). We would like to thank the XRB for the opportunity to provide this submission.
2. NZX is a licensed market operator and New Zealand's exchange. NZX, along with many other listed issuers on NZX's markets, is a climate reporting entity (**CRE**) required under Part 7A of the Financial Markets Conduct Act 2013 (**FMC Act**) to prepare climate statements in accordance with the Aotearoa New Zealand Climate Standards (**NZ CS**).
3. NZX is a member of the Sustainable Stock Exchange Initiative (a United Nations partnership programme organised by UNCTAD, the UN Global Compact, UNEP FI and the PRI), and member of the Sustainable Business Council. NZX strongly supports the climate-related disclosures (**CRD**) regime. We are committed to supporting the development of capital markets in a manner that contributes to a climate-resilient future for New Zealand. NZX's markets have a total market capitalisation of approximately $227bn, with approximately $6.9bn comprised of 'green bonds' on the NZX Debt Market.
4. NZX supports the alignment of NZ CS with international regimes, however we do not consider that alignment requires the reporting requirements to be identical. New Zealand's recognition of regimes built on comparable principles to our own is critical in ensuring that reporting efforts are not duplicated, and CREs' resources can be spent focusing on the effect of climate risks and opportunities on their businesses, rather than striving for reporting perfection (which is heightened by director liability concerns). We also support mandatory reporting being expanded to private enterprise to further the purposes of the CRD regime. We expand on these points below.

Alignment does not mean identical

5. NZX endorses the XRB's objective of aligning climate reporting in New Zealand with international frameworks. We consider that alignment does not mean equivalence, rather alignment occurs where core principles underpinning respective regimes are consistently reflected in reporting settings, preferably accompanied by mutual

recognition. The alignment of NZ CS with international settings (in particular IFRS S2) will enable lower costs of capital for New Zealand CREs, by ensuring that users of climate disclosures have access to useful information that supports their investment decisions, consistent with that provided by international entities.

6. One of the legislative purposes of the NZ CS is to ensure that a CRE generates information to enable it to consider climate risks and opportunities, and the XRB has been mindful of the compliance burden placed on CREs in developing the New Zealand settings. While we understand that IFRS S2 focuses on the utility of information to a primary user rather than to the CRE, we consider that it is important for New Zealand's climate reporting framework to be designed in a proportionate manner that balances the burden and cost of providing disclosures with the utility of that information to the reporting entity.

Recognition of alternative frameworks

7. While international standards remain in a state of flux, we consider that further alignment of the NZ CS themselves may be challenging, and that it is necessary for an extension of the adoption provisions, particularly in relation to scope 3 reporting and assurance, for a further year.

8. We support New Zealand recognition of reporting frameworks that are aligned with NZ CS. At this time it is particularly important for New Zealand to recognise frameworks that provide equally effective (although not identical) disclosures, and to enable New Zealand CREs to report in accordance with these frameworks, rather than NZ CS.

9. In this context it is essential that New Zealand recognises the equivalence of AASB S2, given that New Zealand CREs compete for capital in the context of the Australasian capital markets. This approach is preferable to NZ CS2 being amended to reflect the settings contained in AASB S2.

Private entities should also be CREs

10. NZX supports the CRD regime being extended to apply to private entities. This would further support the delivery of the purpose of the regime by better supporting the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future and also avoid capital markets regulatory arbitrage between public and private markets. This would also better align New Zealand's CRD regime with the approach taken in Australia where entities are not differentiated based on whether or not they are listed, but on their size and scale.

Response to consultation questions

11. We have set out below our responses to the specific consultation questions that are relevant to NZX.

Q1: Which standards, overseas jurisdictions or other specific elements of international alignment are the most important for you (as a CRE or a primary user of climate statements), and why?

12. We are not aware of specific aspects of international frameworks that are being voluntarily adhered to by listed issuers on a systemic basis because those settings better reflect the needs of primary users or CREs.

Q2: Is now the right time for New Zealand to amend or replace NZ CS to achieve closer international alignment with any other standards, and why?

13. We do not consider that further alignment of the NZ CS with international frameworks is appropriate at this time given the differential approach being taken internationally to reporting requirements, and the lack of a globally accepted approach.

14. We consider that any further alignment of NZ CS to IFRS S2 would be better considered once the first round of compulsory reporting under IFRS S2 becomes available. Any adjustment to NZ CS needs to be considered in the context of the lack of certainty that further change will create for New Zealand CREs, given that many have recently developed their internal reporting frameworks to align with a new regime and have only provided one period of climate statement reporting. As noted in our submission from October 2024, in order to support CREs it would be useful for the adoption provisions, particularly for the mandatory reporting and assurance of scope 3 greenhouse gas emissions, to be extended for a further one year period.

Q3: If closer international alignment is desirable, what process to achieve this degree of alignment is most desirable (e.g., greater alignment of NZ CS or revoking NZ CS)? Why?

15. The response to this depends in part on the aspects of NZ CS that the XRB considers should be amended to better align with IFRS S2, however we consider that revoking NZ CS at this point and replacing it with an entirely new framework would impose disproportionate costs on CREs given that many have only recently designed and implemented internal arrangements to enable NZ CS compliant reporting to be provided.

16. We suggest that amending or revoking NZ CS at this time will distract CREs from considering their activities in the context of the information relating to climate risks and opportunities identified through the preparation of NZ CS compliant disclosures.

Q4: What information can you provide that this closer international alignment would better achieve the stated purpose of climate reporting as per section 19B of the Financial Reporting Act 2013?

17. We expect that over-time closer alignment of NZ CS with international reporting settings will better enable New Zealand CREs to compete for capital on the Australasian and global stage.

18. We expect that future international alignment could support CREs and other users who wish to procure climate-related data or services. Enhanced alignment will prevent international providers from needing to adjust IFRS or AASB compliant data for the New Zealand regime. Similarly, NZ CREs could further benefit from accounting/consulting services that are already compliant with IFRS/AASB but not yet tailored for NZ CS.

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Q6: Is mutual recognition important to you and, if so, how would it impact any of your above answers

19. As noted in our opening comments, we consider that over-time international alignment is critical in enhancing the utility of CRD information for CREs and primary users, and enabling New Zealand CREs to compete internationally.

20. While international standards continue to develop, we consider that rather than further aligning NZ CS with international frameworks, that New Zealand should focus on the recognition of equivalent international frameworks (and particularly AASB S2). This approach will better enable the purpose of the CRD regime to be delivered, by ensuring that CREs are not distracted from assessing the effects of climate risks and opportunities on their activities, by the need to duplicate effort by complying with equivalent but non-identical regimes. As recognition would only be available for regimes assessed by the FMA to be equivalent to NZ CS, the level of information available for primary users to assess the merits of how CREs are considering climate risks and opportunities would be maintained.

21. New Zealand's recognition of equivalent international frameworks will remove complexity for issuers reporting in multiple regimes, reducing compliance cost and allowing CREs to focus their resources on the consideration of the information produced. This approach is consistent with the broader purposes of the Financial Markets Conduct Act 2013, of which the CRD regime forms part, as it would avoid unnecessary compliance costs while promoting the development of efficient and transparent financial markets for New Zealand.

Next steps

22. Thank you for the opportunity to provide this submission, and or your engagement on these matters with NZX. We would be happy to discuss any aspect of this submission further with you.

Yours faithfully,

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Head of Policy

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