

Westpac New Zealand Limited

Submission to External Reporting Board
on

*Request for information on the
international alignment of climate
reporting 2025*



1. INTRODUCTION

1.1 This submission to the External Reporting Board (**XRB**) is made on behalf of Westpac New Zealand Limited, BT Funds Management (NZ) Limited and Westpac Banking Corporation (together **Westpac**) in respect of *Request for information on the international alignment of climate reporting 2025 (Consultation Document)*. Thank you for the opportunity to provide feedback on the proposals.

1.2 Westpac's contact for this submission is:

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2. KEY SUBMISSIONS

2.1 Westpac strongly supports international alignment of the Aotearoa New Zealand Climate Standards (**NZCS**) as an overarching objective. Improving the comparability of New Zealand climate reporting with other countries (particularly Australia) would benefit primary users who will typically be looking to make investment decisions across Australasia and internationally. Greater comparability would also assist climate reporting entities (**CREs**) in reducing effort (particularly when they have operations across the Tasman) and in fostering best practice by enabling CREs to better assess disclosures against international peers.

2.2 However, our view is that significant changes to the NZCS should be deferred for at least a few years. International standards are evolving, and there would be value in allowing additional time for existing regimes (both in New Zealand and overseas) to become more settled before seeking further alignment. Alternatively, the XRB may wish to consider targeted and/or phased amendments (such as addressing material inconsistencies with Australian or ISSB standards or allowing an extended transition period for CREs).

2.3 In terms of the timing of any changes, it would be preferable to first establish tailored climate standards for registered managed investment schemes before considering alignment of the existing NZCS. While there would be value in international alignment for some CREs, it is unlikely to be beneficial for most fund managers' reporting in respect of a registered managed investment scheme at this stage as this could add complexity which is not helpful to these schemes' primary users.

2.4 International alignment and mutual recognition arrangements are complementary. Westpac supports the introduction of international recognition of Australian standards as soon as practicable, and for efforts to be made to encourage Australia to reciprocate, whether there is further alignment in standards or not.

2.5 Westpac supports the submission made by the New Zealand Bankers Association and makes the following additional points.

3. **RESPONSE TO CONSULTATION QUESTIONS**

Question 1: 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 standards), and why?

- 3.1 As a CRE, Westpac strongly supports alignment of the NZCS with the Australian reporting requirements.
- 3.2 From a primary user perspective, the comparability of New Zealand climate statements with other similar jurisdictions is important for attracting and retaining international investors to the region. Similar to accounting standards, international alignment would support the comparability of New Zealand entities with other companies globally. International investors typically make investment decisions across Australasia and the broader Asia/Pacific region. Westpac therefore considers that alignment with Australia would be most beneficial. This also recognises that the New Zealand regime is already closely aligned with ISSB S2.
- 3.3 However, international alignment is unlikely to be beneficial for most fund managers reporting in respect of a registered managed investment scheme and could add complexity which is not helpful to these schemes' primary users. These schemes' primary users are often almost entirely domestic retail investors (particularly in respect of KiwiSaver), who have less ability to make use of lengthy or technical disclosures and typically will not be familiar with reporting under overseas regimes. To the extent that this information forms part of their decision-making, it will generally involve a comparison of offerings across New Zealand CREs, meaning that alignment of reporting standards with other jurisdictions will be of limited value to primary users in this context.
- 3.4 Westpac supports the introduction of differential reporting and welcomes the XRB's consultation on its proposals in this regard. Aspects of the current reporting standards are not well-suited to this sector and prioritising international alignment risks undermining relief which may be provided through differential reporting but introducing additional and/or different requirements that may exacerbate existing challenges in reporting. There would be benefit in establishing separate tailored climate reporting standards for managed investment schemes first, before making changes to align with overseas regimes.

Question 2: Is now the right time for New Zealand to amend or replace NZCS to achieve closer international alignment with any other standards, and why?

- 3.5 While Westpac supports international alignment as an overarching objective, we consider it may be preferable to defer any significant changes to New Zealand standards for a few years. International standards are relatively new, with many countries including Australia still implementing their reporting regimes. Further, there are already indications that overseas regimes are likely to evolve over the next few years. If New Zealand was to align now, it is likely that further changes would be required over the coming years to maintain this alignment. We consider it would be preferable to allow additional time – for example, three years – for international standards to become more settled, before making significant changes towards alignment. This will reduce the number of times CRE's need to implement changes, noting that each time the standards change there will be additional costs and/or staff time required to implement those changes.
- 3.6 New Zealand's reporting regime is still in its infancy, with many CREs only in, or having just completed, their second year of climate reporting, and a number of adoption provisions still in place. There has been a significant amount of work done in New Zealand to achieve compliance with the current NZCS. Having wholesale changes to the standards after only a couple of years (particularly before this reporting

has bedded in as 'business as usual') will create significant rework and require further reinvestment, particularly where international standards are more prescriptive or require disclosure over and above that of NZCS. Significant changes to align New Zealand standards with overseas regimes at a later stage will still result in additional work for CREs during the transition. However, a delay of a few years would allow CREs to develop additional knowledge and experience under the existing NZCS and to benefit from experience in the overseas jurisdictions ultimately aligned with. This, combined with reducing the number of times CREs need to implement changes to standards, should significantly reduce the burden of this change.

- 3.7 Within this context, it would make sense for any significant changes to be deferred a few years. If considered necessary, we would be open to targeted changes being made sooner to address any material inconsistency with Australian or ISSB standards or provide relief in any areas where NZCS is more onerous than international standards (e.g. the requirement to analyse three climate scenarios, compared to two scenarios under the Australian regime). Overall, it is useful that the NZCS is principles-based and allows judgement in disclosure, as this allows flexibility across a number of different organisations and industries to tailor their reporting as appropriate for them.
- 3.8 Alternatively, we would support an option where the XRB adopted a New Zealand equivalent to ISSB S2 (with concessions in similar areas to AASB S2) sooner but leaves the existing NZCS standards in place and allows CREs to elect which standard they comply with for an extended transition period (for example 5 years). This would allow entities who benefit from earlier alignment with Australia or other ISSB-aligned regimes to move to an aligned standard earlier, while providing the benefits of delaying alignment until international standards become more settled and overseas regimes are more imbedded for those entities who do not have a pressing need for international alignment.

Question 3: If closer international alignment is desirable, what process to achieve this degree of alignment is most desirable (e.g. greater alignment of NZCS or revoking NZCS)? Why?

- 3.9 If the XRB identifies relatively targeted amendments, these could be made by adjusting the existing standards. If the ultimate decision is to reframe the requirements more substantially to align the New Zealand's standards with ISSB standards, it would likely be more efficient to repeal and replace the NZCS.
- 3.10 While the approach to alignment will depend on the nature of any changes, we consider that the staged process set out below would be effective:
- (a) **As soon as practicable:** Introduce international recognition of Australian standards and encourage Australia to reciprocate. The XRB's analysis indicates the differences are not material, and mutual recognition could significantly reduce compliance costs for trans-Tasman entities.
 - (b) **Year two:** Reassess alignment with Australian AASB S2 and ISSB S2 standards and review any other changes that are underway or proposed.
 - (c) **Year three:** Begin formal alignment work, using international standards as the starting point. Where a standard does not suit the New Zealand context, this should be excluded rather than rewritten.
- 3.11 It will be important to provide to sufficient time between finalising changes to NZCS (or replacement standards) and mandatory implementation of those changes. A number of disclosures, particularly scenario analysis, GHG emissions, anticipated financial impacts and other metrics, rely on business

processes, IT systems, and the collection or purchase of data which take time to change in response to changes to the standards. As such, it can take 12 to 18 months for CREs to be able to fully implement these changes.

Question 4: 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?

- 3.12 Alignment with ISSB S2 and AASB S2 would ensure that New Zealand climate reporting is comparable with those of overseas companies, particularly those from Australia, and therefore make it easier for investors to compare how New Zealand entities and overseas entities are considering climate-related risks and opportunities. This should over time help to ensure that the pricing of climate risk and allocation of capital towards climate mitigation and adaptation happens at a global or regional level. By contrast, if New Zealand climate reporting is seen as not sufficiently aligned, investors may be less able to compare internationally. This could lead to less international investment in New Zealand companies.
- 3.13 Additionally, international alignment will enable New Zealand to contribute to the development of reporting best practice, and benefit from international experience. This should lead to New Zealand standards and practice supporting CREs to provide disclosure about how they are considering climate-related risks and opportunities that is as useful as possible to their investors.
- 3.14 For entities with parents or subsidiaries that are operating overseas and are caught by overseas reporting regimes, international alignment will support a consistent approach to assessing, managing and reporting on climate-related risks and opportunities across the group. This will lead to better management of risks and opportunities. It should also deliver some efficiency, enabling more time to be spent on improving the quality of reporting and/or managing climate-related risks and opportunities.

Question 5: Are there any climate-related disclosure requirements that you comply with that are not standards set by other jurisdictions (for example, via supplier agreements)? How important are those disclosures to you? Should the XRB take those requirements into consideration and how?

- 3.15 We do not have any other reporting requirements that need to be considered.

Question 6: Is mutual recognition important to you and, if so, how would it impact any of your above answers?

- 3.16 Westpac supports mutual recognition. Where CREs are subject to mandatory reporting both in New Zealand and one or more overseas jurisdictions, the increased cost and risk of having to prepare either multiple climate reports under different jurisdictions' requirements or to prepare one report that complies with multiple regimes is likely to be disproportionate to the marginal benefits, compared with creating one report that complies with home jurisdiction requirements and being able to use that report across all jurisdictions. We therefore support mutual recognition, whether there is further alignment in standards or not.
- 3.17 Once overseas reporting regimes become more settled, we consider that international alignment and mutual recognition arrangements are complementary and should both be progressed because:
- (a) International alignment will support regulators to recognise overseas regimes. At least initially, recognition of overseas regimes will need to be implemented through FMA exemptions. As with financial reporting, alignment of climate reporting standards with key overseas jurisdictions would make it easier to demonstrate an equivalence of information and therefore that mutual recognition (or one way recognition) is appropriate.

- (b) For CREs who are either not caught by overseas climate reporting regimes or can take advantage of mutual recognition, as explained in our response to question 1, ensuring the form and content of their NZ climate reports are consistent with what overseas institutional investors are familiar with is likely make it easier to access investment from those investors.

