chapman tripp

Provided to:
The External Reporting Board (XRB)

Request for information on Climate reporting International alignment

13/06/2025

Introduction

This submission is made on behalf of Chapman Tripp. Chapman Tripp is a leading commercial law firm with offices in Auckland, Wellington and Christchurch.

Our contacts for the purposes of this submission are:

Nicola Swan

Partner (Litigation / Climate, Sustainability & ESG)

nicola.swan@chapmantripp.com

Roger Wallis

Partner (Corporate)

roger.wallis@chapmantripp.com

Kate Wilson Butler

Director – Climate, Sustainability and ESG

kate.wilsonbutler@chapmatripp.com

We have no objection to our submission being published.

chapman tripp

Background

1 Chapman Tripp welcomes the opportunity to submit on the Request for Information on Climate Reporting 2025 (the *RFI*), relating to the value of international alignment to climate reporting entities (*CREs*) and primary users of CREs.

2 We act for a number of listed issuers, banks, insurers and fund managers. We have witnessed first-hand challenges and insights from the first two years of New Zealand's mandatory reporting regime.

3 Our submission does not purport to represent the views of any of our clients.

Summary of submissions

4 We support retention of the NZ CS for at least the next three years, together with a move towards international alignment over time:

4.1 CREs have made extensive investment into preparing first and second year reports which comply with the NZ CS. CREs are adjusting to reporting in compliance with the adoption provisions in NZ CS 2, which are still being phased out. Aside from those with Australian parent companies, in our experience most issuer CREs will not welcome significant changes to NZ CS for FY26, particularly while overseas standards and associated guidance need time to mature.

4.2 In 2024, Chapman Tripp published a widely-cited report analysing international climate-related (and broader ESG) reporting standards: *Protecting New Zealand's Competitive Advantage.*[1] Updating this report in June 2025 in advance of this consultation, we identified a clear trend towards international alignment of reporting standards. The most prevalent standards are the moment are those drawn from IFRS S1 and S2, including the AASB S2 standard that must be complied with by very large Australian enterprises for reporting periods commencing on or after 1 January 2025.

4.3 There may be options in the short term for XRB to adjust NZ CS 1, NZ CS 3 and/or implement new adoption provisions in NZ CS 2, to more closely align language in NZ CS 1 and NZ CS 3 with IFRS S2 and AASB S2 where:

(a) the differences are relatively minor and might be easily aligned (e.g. in relation to Governance and Risk Management); and

(b) IFRS S2 and/or AASB S2 provide for graduated or proportional responses from CREs, including allowing CREs to recognise that they do not have appropriate resources for certain disclosures.

5 We strongly support introduction of *unilateral* and *mutual* recognition of AASB S2, and standards adopted by other jurisdictions which implement IFRS S2. This should be a straight-forward solution to ensure that New Zealand CREs continue to produce

[1] https://www.theaotearoacircle.nz/reports-resources/protecting-new-zealands-competitive-advantage, published June 2024 (see updated content at paragraph 10 below).

high quality climate-related disclosures, while having the option to rely on CRD produced offshore to satisfy New Zealand reporting requirements.

6 Given the prevalence of 30 June balance dates, we understand most of the required Australian reports will be first required for the reporting period ended 30 June 2026. Accordingly, we do not expect Australia will progress mutual recognition of the New Zealand Climate Standards in the near term. In our experience, the Australian Securities and Investment Commissions (*ASIC*) prefer to grant individual entity relief instruments over class relief, at least in the earlier stages of new regime.

7 Conversely, we would support the Financial Markets Authority (*FMA*) providing relief for those CREs that wish to rely on it, through unilateral recognition of the Australian regime under a class exemption recognising AASB S2 for FY26. The FMA has a long history of granting such class relief unilaterally in the context of financial reporting.

Detailed submissions on the RFI

Question One: 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?

8 In terms of relevant standards, our clients are generally focussed on NZ CS 2, AASB S2 and/or IFRS S2.

9 In terms of relevant overseas jurisdictions, in our experience most offshore equity capital investment in New Zealand listed issuers comes primarily from Australia, the United States, the United Kingdom, Hong Kong, Singapore, and certain specified jurisdictions in Europe. It is for this reason that Schedule 2 of the Financial Markets Conduct (Disclosure Using Overseas GAAP) Exemption Notice 2022 focuses on those jurisdictions[2]. Alignment with, or mutual recognition of, regimes adopted by those jurisdictions will assist the flow of capital over the longer term. For completeness, apart from some Australian sourced investment, in our experience most debt issuance quoted on the NZX Debt Market is held predominantly by New Zealand based investors.

10 Key insights from our analysis that may help inform policy focus on particular international standards are the following:

10.1 According to the International Sustainability Standards Board (*ISSB*), nearly 55% of world GDP have announced steps to use the ISSB Standards IFRS S1 or IFRS S2 or to align their sustainability disclosure standards to the ISSB. For example, the first proposed Canadian Sustainability Disclosure Standards – CSDS 1 and CSDS 2 – adopt the IFRS Foundation's S1 and S2 with some changes. In the United Kingdom, the Financial Conduct Authority's policy statement on the final rules for the UK's sustainability disclosure requirements were heavily based on the IFRS 1 and IFRS2. Australia's AASB S1 and S2 are

[2] https://www.legislation.govt.nz/regulation/public/2022/0262/latest/LMS748869.html. Schedule 2 currently lists the following jurisdictions where overseas GAAP is recognised instead of NZ GAAP: Canada, Commonwealth of Australia, Federal Republic of Germany, France, The Netherlands, Republic of Ireland, Republic of South Africa, Singapore, Switzerland, United Kingdom, and the United States of America.

similarly based on IRFS S1 and S2, and Malaysia has proposed mandatory adoption of the IFRS standards for some issuers.

10.2 Various Asian economies are adopting climate and sustainability disclosure requirements based on the ISSB S1 and S2 standards, with China committing to mandate nationwide ESG disclosures by 2030. Our updated analysis as at June 2025 shows that notwithstanding US and Canadian CRD proposals being withdrawn and put on hold respectively,[3] nearly 70% of New Zealand's export value continues to be directed to economies with mandatory CRD either in force or actively proposed.

10.3 At a local level, detailed issuer-by-issuer analysis we conducted in 2024 indicated the number of New Zealand climate reporting entities *directly* affected by incoming international reporting requirements will be significantly limited to those with a sizeable presence in the relevant market, recognising that some CREs are indirectly affected as a result of expectations of suppliers located in markets with incoming reporting requirements.

11 In essence, therefore, only our largest companies will be directly captured by offshore CRD regimes, which vary depending on region and economy. Capital flows in from a small set of jurisdictions. We anticipate Australia's climate standards (AASB S2) and/or IFRS S1 and S2, are likely to be the standards most relevant to primary user and other stakeholder expectations in at least the medium term.

Question Two: 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?

12 Feedback from clients suggests that comprehensive alignment should generally be done in the longer term. We do not think now is the right time for New Zealand to fully replace the New Zealand Climate Standards. Mutual recognition should address concerns about duplication more effectively at this point in time than significant reform of the NZ CS per se.

13 Many NZ CREs have made extensive investment into preparing first and second year reports. CREs are still adjusting to reporting in compliance with the adoption provisions contained in NZ CS 2, which are being phased out. In our experience, most CREs will not welcome significant changes to NZ CS which require more granular or additional information from this year (FY25), especially given the more onerous overseas regimes (such as Australia's Climate Standards) are still coming onstream. Rather, several CREs would welcome extension of the NZ CS 2 adoption periods for at least a further 12 months.

14 That said, there may be opportunities for XRB to adjust some more minor aspects of NZ CS to more closely align with AASB S2, where this does not cause additional burden for CREs. For example:

[3] The United States Securities and Exchange Commission has withdrawn its national climate disclosure rule. Canada has put its mandatory climate and sustainability disclosure regime on hold for now, pending further developments in the US and international markets.

14.1 greater alignment between the Governance and Risk Management sections of NZ CS 1 and AASB S2 could be achieved with some modifications. Modifying NZ CS 1 to bring these disclosures closer to AASB S2 (and therefore IFRS S2) could allow harmonisation on non-controversial points;

14.2 assurance of Scope 3 disclosures will only be required in Australia for the largest "group 1" reporting entities for the reporting periods commencing on or after 1 January 2026 (with most requiring scope 3 assurance for the first time for the reporting period ended 30 June 2027). As CREs continue to mature in their reporting of Scope 3 emissions, extension of the current AP4 in NZ CS 2 for at least another 12 months would take significant pressure off CREs, while still encouraging international alignment. Another approach would be to provide for differential reporting, with only very large New Zealand CREs required to arrange assurance of Scope 3 emissions in the short term;

14.3 preparation for mandatory disclosure of anticipated financial impacts is already proving to be particularly difficult and costly for CREs, particularly where there are no international examples of reporting or appropriate methodologies, and where different consultants propose different approaches. Again, extending the current AP2 in CS 2 for at least another 12 months would take pressure off CREs, without seeking to change the requirements for those entities that do wish to choose to report these impacts for FY26.

14.4 AASB S2 accommodates CREs where they do not have the appropriate resources to prepare certain disclosures, including anticipated financial impacts. Paragraph 18 recognises that CREs shall use all reasonable and supportable information that is available "without undue cost or effort", and an approach which is commensurate with the skills, capabilities and resources that are "available" to the CRE at the time. This type of recognition would considerably ease pressure on NZ CREs which are resource and cost constrained, and at the forefront of evolving international reporting.

15 We do not support a sudden revocation of the CS in favour of AASB S2 or IFRS S2. In our experience, and having closely reviewed the similarities and differences between the standards, preparation of climate statements under IFRS S2 or AASB S2 will mean that CREs would need to produce longer and more onerous disclosures. For example:

15.1 If the full AASB S2 Governance section were adopted, this would require descriptions of terms of reference, mandates, role descriptions and governance body policies, as well as processes relating to major transactions, which are not required by NZ CS 1.

15.2 AASB S2 requires significantly more detail regarding forward looking climate strategy and transition planning than the NZ CS. This includes requiring the disclosure of extensive information about the resilience of an entity's strategy and business model to climate-related changes, and how the entity plans to resource its strategy. AASB S2 requires disclosure of how targets will be met, and how entities are resourcing their transition planning, with greater detail on alignment with financial reporting. In an entity's disclosures on anticipated financial effects, AASB S2 requires additional disclosure of any climate-related

risks and opportunities that could significantly change the values of the CRE's assets and liabilities. It also requires disclosure of how the entity expects its financial position, including its investment and disposal plans, financial performance and cash flows, to change over the short, medium and long term in response to its management of climate-related risks and opportunities. This content requires more granular detail than NZ CS 1.

15.3 While both the NZ and Australian regimes require disclosure relating to how climate-related risks are identified, assessed and managed, AASB S2 requires more granular disclosure of information on climate-related opportunities, as well as related policies and whether and how related processes have changed across report periods.

15.4 AASB S2 requires the disclosure of additional mandatory metrics. These include the requirement to disclose both the amount *and* percentage of assets or business activities vulnerable to physical and transition risks, and opportunities. AASB S2 also requires GHG emissions and target disclosures to comply with more detailed requirements, aligning climate reports with further climate standards.

Question Three: 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?

16 We consider flexibility should be a guiding principle.

17 One possible option for creating international alignment is to permit NZ CS 1 to continue over the next five or so years, while allowing New Zealand CREs to choose to report in accordance with IFRS S2 and/or AASB S2 if they elect to do so. This approach could most easily be implemented by a jurisdiction-specific class exemption made by the Financial Markets Authority (*FMA*), and/or the implementation of a mutual (or unilateral) recognition scheme (discussed further below). Such an approach would allow time for international regimes to bed in, giving CREs a transition period while also giving those entities with a strong desire for immediate international alignment to report as such.

Question Four: 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?

18 As CREs adjust and upskill to the level required for disclosure under NZ CS, we are already seeing improvements in disclosures year-to-year. Wholesale changes to these standards now, by making them too granular too early, will make it more difficult for CREs to properly consider their climate-related risks and opportunities (per s 19B(b)), as they become too focussed on compliance and less on actual development of strategy.

19 However, having observed the increasing maturity of reporting from CREs in the New Zealand market in the last three years, our view is that integrating international alignment over the longer term and/or enabling mutual recognition more immediately may better achieve the purposes in s 19B of the Financial Reporting Act 2013 (*FRA*) by allowing CREs to improve their climate reporting and by giving more consistent metrics to investors and stakeholders.

chapman tripp

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

20 We expect that mutual, or in the near term unilateral, recognition would be welcomed across a range of CREs in the short term, with international alignment pursued in the longer term.

21 In the first instance, unilateral recognition of the Australian regime could be easily achieved by the FMA issuing a class exemption recognising AASB S2, such that a New Zealand CRE could file CRD on the New Zealand register prepared in accordance with AASB S2 instead of preparing CRD in accordance with NZ CS 1.

22 This would immediately assist those CREs with Australian parent companies which wish to prepare a single set of CRDs for both jurisdictions. However unilateral recognition should not be limited to Australian incorporated parent entities. At present, more than 50 New Zealand incorporated companies are also listed on ASX, and several have a more material Australian business presence than in New Zealand. Accordingly, unilateral mutual recognition would also benefit those New Zealand incorporated, NZX and ASX dual listed CREs with material Australian subsidiaries that would otherwise need to prepare two sets of group climate standards under different requirements. New Zealand CREs electing to utilise the exemption could be required to lodge a notice on the CRD Register to this effect.

23 The FMA could then extend such unilateral recognition to other jurisdictions (e.g. Singapore/Malaysia) which are adopting IFRS S2, so long as the FMA was content that the adoption in those jurisdictions did not dilute the requirements of IFRS S2 below those of the NZ CS.

24 In the longer term, mutual recognition could be achieved by the enactment of an amendment to the FMCA to introduce a mutual recognition scheme similar to the trans-Tasman mutual recognition scheme for offers of financial products, which allows issuers to offer financial products into both the Australian and New Zealand markets using only one offer document, which complies with the requirements in either jurisdiction.

Chapman Tripp
13 June 2025

www.chapmantripp.com