Sustainable Business Council | WBC Global Network

CLIMATE LEADERS COALITION
ON A MISSION TO REDUCE EMISSIONS IN NEW ZEALAND

Sustainable Business Council and Climate Leaders Coalition response to the Climate-related Disclosures Consultation

February 2025

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1. Introduction

The Sustainable Business Council (SBC) and Climate Leaders Coalition (CLC) welcome the opportunity to submit on the MBIE Climate-related Disclosures (CRD) consultation. Our members represent around 40% of New Zealand's GDP and include many climate reporting entities.

SBC and CLC submissions are informed by the views of individuals qualified to represent their organisations on these issues. Individual SBC and CLC members may have alternative views on the consultation which may differ from those included in this submission. Members may also submit as individual entities on this topic. Where members submit individually these views represent fully the company perspective. This submission does not encompass the views of directors. Some members are excluded from submission processes where there is a substantial conflict of interest, for example, government agencies. More information on the membership of SBC and CLC can be found on page 9 of this document.

This response has been informed by the experience of members, including those participating in the SBC Community of Practice for Climate Related Disclosures. Members experience of climate related disclosures varies by size, position in the market, and role within the disclosure ecosystem amongst other factors.

SBC and CLC prioritise ongoing engagement with climate policy and action and believe that reporting is an important part of this. For this reason, SBC and CLC *support the fundamental purpose of the CRD scheme* in promoting transparency around climate-related risks and opportunities, enabling more informed business and investment decisions, and supporting progress toward a low-emissions, climate-resilient economy.

Members support continuous improvement of the CRD regime, and some caution against premature changes that could undermine its effectiveness. The first year of reporting is anticipated to be the most expensive and time-consuming iteration as businesses learn and develop processes. Costs should reduce now or level out as the system becomes the norm.

The global transition to a low-emissions economy requires robust climate-related disclosures, and New Zealand has shown leadership in this area. SBC and CLC members remain committed to providing decision-useful climate-related information to stakeholders and supporting New Zealand's transition to a low-emissions economy. SBC and CLC welcome further engagement on these issues and are happy to provide additional information or clarification as needed.

2. Response to the review

Investment and return

Whilst members acknowledge that implementation costs are significant, particularly for smaller listed entities, a number of members have had costs at less than those outlined in the document and are deriving value that has not been explicitly referenced in this consultation.

The report cited[1] in the consultation, to outline illustrative costs, appears to be drawn from a limited number of data points and may not be reflective of the average cost. SBC and CLC caution against using this without complementary information. SBC and CLC anticipate that direct evidence on costs from participants and others, will be provided to MBIE through this process.

Members note that fees to produce reports may reflect two aspects of costs. First, the cost of expert assistance in the form of consulting and advisory outlay, to develop the content itself. This may involve work such as scenario development. The second part of the costs stem from review and assurance of the reports. These costs are challenging to attribute to compliance and are variable over time and between companies.

Many members note that the first cost (expert assistance) is effectively an investment in capability and strategy development for the business. This investment in the business may provide returns, either through positioning, access to capital, or a better understanding of future growth options. A better understanding of climate-related risks and opportunities allows businesses to build their resilience to climate change.

Many members anticipate that the reporting process will become more streamlined now that the first iteration of reports has been developed and assured. International experience suggests that the costs of developing the reports reduces as businesses move from first iterations to refining and updating future versions.

Many members note that currently costs are expected to remain high as various adoption provisions are removed over time. An option to address costs may be to make permanent the current due date for disclosure of four months after balance date. Some members have concerns that the additional cost of having to do both the financial and climate reporting at the same time is misunderstood and underestimated. The ability to stagger the reporting allows the finance teams to support the preparation of climate disclosures. If both are required at the same time, this will put concentrated pressure on resources and internal costs will increase.

International experience indicates that the costs of legal review and assurance may not decrease as schemes mature. Even if director liability is amended, members have noted the risks associated with third party action against businesses rather than individual directors. This implies some costs may remain significant as businesses seek to minimise legal risk. SBC and CLC note that the extent of review is at the discretion and risk appetite of individual businesses, and this may contribute to variation.

Expenses associated with reporting can also be seen as strategic investments, which will be important for value creation and resilience into the future. Members report that the process of preparing climate-related disclosures has enhanced their understanding of climate risks and opportunities, improved strategic planning, and strengthened their ability to respond to increasing investor and customer demands for climate information.

[1] Australasian Investor Relations Association survey of NZX50

The development of these capabilities is becoming essential for accessing international capital markets and maintaining competitiveness in a carbon-constrained world. This regime is a key lever for encouraging businesses to transparently set out important information, in a trusted manner.

Reporting requirements are increasing internationally. It is important for the Government's economic growth agenda that New Zealand remains credible and aligned with investor requirements. There is discretion around where international capital is deployed, and regardless of action taken at an organisational level, the absence of a strong reporting regime with broad coverage in New Zealand could impact market preference.

This is a complicated area, and one that may evolve over time. SBC and CLC see tensions that could pull costs in both directions going forwards. Many members believe it is too early to draw conclusive answers as to what may reduce costs.

Recommendations:

To address cost concerns while maintaining the integrity of the regime, SBC and CLC propose several measures:

- First, consideration should be given to moving from mandatory annual reporting to biennial reporting. Some members have noted this could bring misalignment with Australia and annual reporting cycles. Some climate risks can be fast moving and may benefit from annual reporting. Options to manage this could include flexibility for voluntary reporting where significant changes occur in the interim, non-reporting year, allowing businesses to maintain transparency while managing compliance costs.
- Second, SBC and CLC recommend increasing implementation support through additional guidance and tools. As organisational capability matures, members expect to see process efficiencies emerge naturally. The sharing of best practices and lessons learned could help reduce costs across the market.
- Third, SBC and CLC support the exploration of differential reporting standards through XRB processes, which could help address cost concerns while maintaining the integrity of the regime. This approach should consider size-appropriate requirements while ensuring consistency in core disclosures.
- Finally, members emphasise the importance of viewing these requirements as essential investments in business resilience and market competitiveness.

This balanced approach would help manage compliance costs while ensuring New Zealand maintains its position in climate-related disclosure and continues to meet evolving international market expectations.

Listing on the NZX

As previously stated, many members believe that alignment with international standards is key to attracting capital. Some members note that the absence of climate reporting could prevent access to international capital in the future as markets internationally introduce CRD regimes. Some members have noted that although climate-related reporting alone may not be the deciding factor in a company's choice to list, it has an additive effect, alongside other requirements. This can be material in New Zealand's capital market landscape.

Members would be interested in the evidence to support the supposition that companies are avoiding listing on the NZX because of the compliance burden.

Reporting thresholds

SBC and CLC recognise that drawing a line for inclusion in the reporting regime, whether based on market cap or other measures, risks creating inequity. Some of the smaller businesses required to report may be doing so with limited resources, and may be disproportionately impacted by the requirements. Compliance activities may remove the same resources and people available to transform the business to deliver low carbon outcomes. Adjusting the thresholds could enable smaller and mid-sized issuers to focus the allocation of their limited resources on implementing transition arrangements rather than reporting.

Members note the effort to align with the Australian scheme, but reflect that comparisons are hard to make between the schemes. Members are unclear that the options put forward address the mismatch and believe that more information is needed to understand how harmonisation will work. Some differences between the New Zealand and Australian reporting requirements are not addressed by the consultation. Some members have noted that the Australian regime may be adapted and refined once it has completed one or two reporting periods and this could affect the extent of harmonisation or require further changes to the New Zealand scheme.

Members have also noted that proposed changes may not encourage actions that address climate resilience and adaptation, as well as reducing emissions.

Some members believe that adopting a higher threshold for *full* mandatory CRD reporting could be justified, and reflects market trends offshore. Entities below any adjusted threshold could be required to report emissions data and confirm that, having been through a robust internal process, they do not have any material climate-related risks, opportunities or financial impacts that have not already been disclosed.

With regards to the Australian regime, the reporting thresholds are not solely financial, but also capture the emissions intensity of entities (through whether they are required to report under the National Greenhouse and Energy Reporting Scheme). This consultation and the proposed changes would not address that difference. Members have also noted that the Australian regime allows for staggered timelines for reporting, but also for assurance. This is worth consideration to provide some relief. SBC and CLC suggest that ongoing engagement from the Financial Markets Authority with the Australian regulator would be helpful in areas where alignment is beneficial.

Members have also noted that aligning solely with Australia runs the risk of being out of line with other markets New Zealand firms trade in, and the CRD regimes that exist in those jurisdictions – primarily the EU and US. Perhaps the issue is broader than alignment with Australia, and New Zealand should consider alignment with global norms. There is the potential for major changes to regimes overseas, which implies that alignment with any market may require ongoing revisions to the scheme.

Some SBC and CLC members have concerns about a proposed substantial increase to market capitalisation thresholds. Raising the thresholds substantially could materially reduce transparency around climate risks in the New Zealand market. Many international investors are seeking comprehensive climate risk information, and reducing coverage could impact New Zealand's attractiveness as an investment destination.

The proposed Option 3, which would temporarily increase then decrease thresholds, would create unnecessary uncertainty and complexity for both preparers and users of climate-related disclosures, who may be part of the regime, exit and then re-join.

Recommendations:

SBC and CLC advocate for maintaining current thresholds or making only modest adjustments that align with international developments, particularly in Australia. This would ensure New Zealand maintains comprehensive coverage of climate risks, while supporting international competitiveness. Any changes should avoid creating gaps in coverage that could impact capital flows or create regulatory arbitrage opportunities.

Legislative Framework

SBC and CLC recommend maintaining threshold settings in primary rather than secondary legislation. Members recognise that there may be benefits to moving settings to secondary legislation, enabling a more flexibility to respond to domestic and global contextual changes. However, most members emphasise that certainty and stability in regulatory requirements are essential for effective long-term planning and investment. Moving thresholds to secondary legislation would introduce political uncertainty and could undermine confidence in the regime. International experience suggests that stable regulatory frameworks are crucial for building market confidence and supporting the development of robust reporting practices.

Recommendation:

SBC and CLC recommend that the thresholds remain in primary legislation.

Director Liability

The relationship between liability settings and disclosure quality is complicated. Members acknowledge concerns about liability driving risk-averse disclosure, recognising that overly stringent liability provisions may discourage meaningful forward-looking statements and scenario analysis – crucial for effective climate risk management. Reducing director liability might encourage more fulsome and transparent disclosures, and reduce costs. SBC and CLC note that a temporary safe harbour provision for specific types of forward-looking disclosures could help build confidence in disclosing more detailed scenario analysis and transition planning.

Members note that some level of liability helps ensure rigorous and credible disclosures. Directors are also likely to wish to avoid the risk of third-party action against their companies. This means that information disclosure and costs associated with reporting may not alter materially, as businesses seek to minimise risk regardless.

Members have identified pros and cons for both options 3 and 4 (as set out in the consultation document). Option 4 may not resolve the issues outlined in the consultation document, and risks delaying them only temporarily. Members consider that this liability may result in an excessively risk averse reporting approach. Consequently, this may prevent certain climate reporting entities from providing additional context or information in their statements, which may have been to the benefit of the market and investors, and promote good practice.

Option 4 could be delivered through formal confirmation from the Financial Markets Authority that they won't take action for at least 5 years. This would enable a regulatory regime currently in its infancy including forward looking projections, to develop and move to maturity. This could be achieved through building supporting processes and practises, with directors not being unduly hampered by the overhanging risk of litigation – moving the regime to maturity faster.

Some SBC and CLC members make voluntary disclosures. The directors of these members are bound by financial market conduct standards. The climate reporting entity liability includes deemed director liability whereby a climate reporting entities' directors may be deemed liable for breaches of Part 7A, and face criminal liability for certain offences. This additional liability adds cost and potential for disclosing less.

Reducing director liability could bring greater alignment with Australia. The Australian regime provides for no deemed liability for directors, and instead includes a general obligation to take reasonable steps to ensure compliance. The regime also provides for a 'safe harbour' regime for climate reporting entities, directors and employees, which provides one-year limited immunity from civil claims by private litigants for forward-looking climate-related statements, and three-year immunity against civil claims by private litigants in relation to "protected statements" (covering scope 3 GHGs, scenario analysis, and transition planning). Moving towards a similar approach in New Zealand could bring greater alignment and address some of the challenges identified by some SBC and CLC members.

Recommendations:

SBC and CLC support maintaining corporate liability, while reviewing director liability settings to strike an appropriate balance. In particular, clear guidance on making and supporting forward-looking statements is helpful.

Parent company climate statements

Parent company climate reporting should ideally be aligned across both sides of the Tasman, enabling companies with cross-border operations to file the same climate-related disclosure in both countries, with provisions for additional jurisdiction-specific requirements. Current regulations require separate disclosures for New Zealand and Australian operations, creating redundant work and costs beyond what a single group disclosure would entail.

The proliferation of different climate related disclosure regulations globally poses a risk of inefficient reporting burdens. Allowing parent company climate statement filing for NZX-listed subsidiaries would streamline reporting processes. If other countries look to New Zealand for inspiration and adopt similar approaches when developing their regimes, this could ultimately benefit business.

Recommendation

SBC and CLC support allowing parent companies to file for NZX-listed subsidiaries.

Timing of review & regime maturity

The regime has completed one year of implementation and is now moving into its second year. Some members believe the current review is premature and making changes pre-emptively may undermine the objectives of the regime, or cause unanticipated consequences.

Both domestic and international best practice continues to evolve and mature. Many of our members report that they are still building internal capability and embedding the processes to support climate-related disclosures. Data, evidence and experience on the long-term implications of the scheme is limited, and naturally reflects a learning curve. This suggests that there may not be enough evidence to support a significant review at this time, although discrete changes may be warranted.

Members are operating in a context where reporting requirements have recently been changed, and are likely to continue to change. Members note the reference to the upcoming review 2025 by the XRB on the

establishment of differential reporting standards. The consultation outlines some of options and relief from the issues outlined, that sit with XRB. This is alongside recent amendments to adoption provisions. Some of the changes proposed in this consultation interact with those made by the XRB. Many members note that the review may be happening too early, given other parts of the reporting system are also subject to amendment, and there isn't a complete understanding of the implications of those potential changes.

Recommendations:

- SBC and CLC recommend conducting another review in 2-3 years. This would provide opportunity to gather meaningful data about effectiveness and costs, and allow organisations to establish efficient processes.
- In the interim, SBC and CLC suggest focusing efforts on implementation support and guidance to reporting entities, in particular from the XRB.

Conclusion

This response has been informed by the experience of members, and individual SBC and CLC members may have alternative views on the consultation which may differ from those included in this submission.

SBC and CLC believe that reporting is an important part of the climate policy within New Zealand. For this reason, SBC and CLC support the fundamental purpose of the CRD scheme in promoting transparency around climate-related risks and opportunities, enabling more informed business and investment decisions, and supporting progress toward a low-emissions, climate-resilient economy.

About the Sustainable Business Council

The Sustainable Business Council (SBC) is a CEO-led membership organisation with more than 130 businesses from all sectors, ambitious for a sustainable New Zealand. Members represent more than $158 billion of collective turnover, 41 per cent of GDP, and nearly 287,000 full-time jobs. Our network gives members the ability to take large-scale collective action. SBC is part of the BusinessNZ network and is the New Zealand Global Network partner to the World Business Council for Sustainable Development. www.sbc.org.nz/about/our-members/sbc-members

About Climate Leaders Coalition

Formed in 2018, the Climate Leaders Coalition has a mission of having New Zealand business CEOs leading the response to climate change through collective, transparent and meaningful action on mitigation, adaptation and transition. Together their signatories represent 32% of GDP, employ more than 213,000 people and have a collective turnover of $126 billion. https://www.climateleaderscoalition.org.nz

Managing conflicts of interest

SBC and CLC submit to Government on consultations on behalf of members. Where a member has a significant conflict of interest they are not included in the SBC/CLC submission process. Examples of when this can happen are:

- When SBC and CLC submit on a Government consultation and the member is part of the government
- When a member has regulatory obligations relevant to the submission.

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