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NZX Clearing Submission on Managing Climate-related Risk Draft Guidance Note

Background

1. New Zealand Clearing and Depository Corporation Limited (**NZX Clearing**), a wholly owned subsidiary company of NZX Limited (**NZX**), submits this response to the Reserve Bank of New Zealand's (**RBNZ**) draft guidance note on managing climate related risks for RBNZ regulated entities (**Guidance Note**). We thank the RBNZ for the opportunity to make this submission. NZX Clearing and NZX are committed to ensuring that our current and future climate risks are appropriately managed.
2. NZX is a licensed market operator and New Zealand's exchange. It operates New Zealand's securities, debt, funds, derivatives, and electricity markets. NZX has approximately 200 listed issuers with a total market capitalisation of approximately \$220 billion.
3. NZX is a climate reporting entity for the purposes of the recently included Part 7A of the Financial Markets Conduct Act 2013 (**FMC Act**)¹. As a large listed issuer, NZX is required to report against the climate related disclosure (**CRD**) standards issued by the External Reporting Board (**XRB**) from financial years beginning on or after 1 January 2023, also known as the Aotearoa New Zealand Climate Standards. NZX as a group has begun voluntarily reporting against Global Reporting Initiative Standards in its 2022 Annual Report, on a consolidated group basis which includes disclosures for our subsidiaries such as NZX Clearing².
4. NZX Clearing operates a central counterparty clearing house and securities depository through the NZCDC settlement system. The settlement system is a designated

¹ NZX is considered as being a large listed issuer with a high level of public accountability - section 461O(1).

² Appendix 1 - NZX Annual Report 2022 is available [here](#).

settlement system under Part 5C of the Banking and Prudential Supervision Act 1989³, and will be a designated Financial Market Infrastructure (**FMI**) under Part 3 of the Financial Markets Infrastructure Act 2021. As an operator of a designated FMI, the proposed Guidance Note will apply to NZX Clearing.

5. Nothing in this submission is confidential.

Response to consultation

6. NZX Clearing supports the creation of a Guidance Note that strongly aligns with the XRB's CRD standards and agrees that the Guidance Note should not attempt a "one size fits all" approach. We suggest the RBNZ further consider the application of the proposed guidance to an FMI, such as NZX Clearing, who may have already fulfilled their assessment and reporting of climate-related risks through group financial statements where, in this case NZX, as the parent company is already classified as a climate reporting entity under the FMC Act. Given the significant regulatory changes currently impacting FMIs with the transition to the new FMI standards, we consider that the RBNZ should treat FMIs whose climate-related risks are reported through group climate statements⁴ (because the FMI is a subsidiary of a climate reporting entity), as compliant with the RBNZ's expectations for climate risk reporting.

Existing Risk Management Framework

7. Within the NZX Group, NZX's Board and Audit and Risk Committee are responsible for managing NZX's physical and transitional climate related risks. In 2022, NZX management undertook a significant review of the NZX group's collective climate-related risks in light of the XRB's finalised CRD standards, which resulted in newly identified risks being integrated into NZX's existing Risk Management Framework. This is an ongoing exercise, and we expect that further developments will be made to the NZX Group's Risk Management Framework later in 2023.
8. NZX Clearing's climate risks are assessed within the NZX Group's Risk Management Framework which ensures that there are adequate arrangements in place to both identify and analyse the climate-related risks for NZX Clearing which the proposed Guidance Note seeks to clarify. We therefore encourage the RBNZ to support the reporting of climate-related risks of a designated operator FMI through its parent company where its parent company is a CRD reporting entity.

³ By operation of the Reserve Bank of New Zealand (Designated Settlement System – NZCDC) Order 2010.

⁴ Refer to section 461ZA of the Financial Markets Conduct Act 2013.

Additional compliance costs

9. NZX has begun reporting on its climate impact on a voluntary basis as of 2022. These reports incorporate the climate impact of NZX as a group, inclusive of its subsidiaries such as NZX Clearing. The data utilised to prepare the report is collected at a group level and therefore cannot easily be broken down into components specific to each subsidiary of NZX. Further, NZX Clearing has a service level agreement with NZX to provide a number of services to NZX Clearing and therefore, we consider that reporting of NZX Clearing alone will not provide any further relevant information outside of that provided by the NZX Group.
10. Given that NZX's reports as a parent company already consider the climate risks and opportunities for NZX Clearing, we believe that separating the climate reports between the NZX and NZX Clearing will provide limited additional benefit, and therefore provide an unnecessary additional compliance cost, imposing a disproportionate burden on NZX Clearing.
11. In 2022, both the RBNZ and FMA as joint regulators of FMIs consulted on the upcoming extensive reforms to the FMI Standards. The updated standards have yet to be implemented and are extensive in their amendments and implications for designated operators of FMIs such as NZX Clearing. We believe the need to provide an additional climate disclosure report specific to NZX Clearing would significantly add to the financial and compliance burden for NZX Clearing, at a time when we are already applying significant resources in developing our arrangements to ensure compliance with the new FMI standards. If, despite our submissions above, RBNZ considers that NZX Clearing should report its climate risks on a stand-alone basis, we suggest further consideration is given as to when this reporting is expected to be provided.

Closing Comments

12. NZX Clearing thanks the RBNZ for this opportunity to provide our input on the proposed Guidance Note. We support the RBNZ in its ongoing efforts to standardise the CRD reporting across the financial sector and improve the management of climate-related risks and opportunities for operators of designated FMIs. NZX has taken pre-emptive steps to ensure that an appropriate framework is in place to manage its climate-related risks for itself as a CRD reporting entity, while also accounting for the climate-related risks of its subsidiaries such as NZX Clearing. We consider the existing reporting framework as having adequately assessed the reporting of climate-related risks for NZX Clearing as the operator of a designated FMI. We therefore encourage the RBNZ within its upcoming guidance, to acknowledge subsidiaries such as NZX Clearing as compliant with its regulatory expectations where their parent company is already a climate reporting entity and provides group reporting.



Yours sincerely,



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