



NEW ZEALAND'S EXCHANGE  
TE PAEHOKO O AOTEAROA

# ESG Guidance Note

Consultation Paper

3 August 2022

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This Consultation Paper has been prepared by NZX to seek comment on the proposals contained in the paper, with a view to ensuring that the proposals will enable NZX to operate its markets on a fair, orderly and transparent basis. The proposals set out in this paper do not reflect NZX's concluded views of the matters raised. Capitalised terms which are not defined in this Consultation Paper have the same meanings given to them in the NZX Listing Rules.

# Introduction

NZX wishes to consult on proposed amendments to the NZX ESG Guidance Note (**Guidance Note**), which sets out NZX's regulatory guidance for issuers in relation to environmental, social and governance (**ESG**) reporting practices. This consultation is being undertaken in conjunction with NZX's current review of the NZX Corporate Governance Code (**Code**).

## ESG Proposals under the Code review

NZX commenced the review of the Code in November 2021, and received initial feedback from submitters on the ESG reporting settings that are contained in the Code. NZX is now consulting on more detailed proposals in relation to the Code's recommendations and commentary that relate to non-financial reporting, including amendments to:

- ensure the Code places sufficient prominence on non-financial reporting, by splitting recommendation 4.3 into two separate recommendations,
- further clarify the current position that it is appropriate for ESG reporting to be included on an issuer's website so long as the location of the disclosure is sufficiently referenced in an issuer's annual report,
- encourage issuers to disclose the process by which their non-financial disclosures have been prepared, where an external auditor has not reviewed the disclosures,
- encourage issuers to provide a description of the risk management framework that has been used by the issuer to identify the material risks to its business, and
- support issuers in meeting their legislative obligations by referring to the incoming legislative climate-related disclosures regime.

More detail about these proposals can be found in the Code consultation materials which are available [here](#).

## Scope of ESG Guidance Note consultation

As some of the proposed changes to the Code are relevant to NZX's regulatory guidance in relation to ESG reporting, NZX now wishes to consult on changes to the Guidance Note in conjunction with the Code review. NZX wishes to ensure that the Guidance Note aligns with the proposed changes to the recommendations and commentary in relation to non-financial reporting that form part of Principle 4 of the Code, which is the primary objective of this review.

We are also seeking broader submission feedback as to whether other settings in the ESG Guidance Note should be revised, to help us identify areas where the Guidance Note could better assist issuers in providing ESG reporting to investors and other stakeholders.

This consultation therefore seeks feedback on both:

- specific changes to the Guidance Note that are set out in the accompanying Exposure Draft; and
- discussion questions which are designed to assist NZX in identifying broader areas for review, in respect of which amendments should be developed for further consultation in future.

## Consultation Process

We invite interested parties to provide their views on the matters contained in this Consultation Paper by emailing a written submission to [policy@nzx.com](mailto:policy@nzx.com). Alternatively, if you would prefer to provide a verbal submission, please email NZX Policy to arrange a time to speak with us.

The closing date for submissions is **Friday, 23 September 2022**.

NZX may publish the submissions it receives, so please clearly indicate in your submission if you do not wish for your submission to be published, or if part of your submission contains confidential information.

If you have any queries in relation to the review, please contact:

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## Proposed Amendments to the Guidance Note

The Exposure Draft accompanying this Consultation Paper contains the proposed amendments that NZX intends to make to the Guidance Note. These changes are described in more detail below.

### Location of ESG disclosures

NZX is proposing amendments to the Guidance Note to further clarify the current position that ESG disclosures should be included in an issuer's annual report, either as part of the corporate governance report, or as a summary within the annual report that includes a link to where more fulsome ESG disclosures are available on an issuer's website.

NZX notes that many stakeholders access information relating to an issuer's ESG risks and opportunities through an issuer's website, and that issuers are able to more frequently update ESG disclosures by providing information on their websites. NZX considers that where this is the case, it is appropriate for the annual report to refer to a website where more length disclosures are available, as this will ensure that investors and other stakeholders can identify and locate an issuer's ESG reporting. Alternatively, issuers may wish to provide full ESG reporting as part of their annual report.

Including an appropriate level of ESG information in an annual report is important, given that the annual report is a well-signalled and expected disclosure mechanism, and can be used by investors to consider the comparability of respective issuers' disclosures.

### Preparation process for ESG disclosures

NZX is proposing to amend the Code commentary to recommendation 4.4 to encourage an issuer to disclose the process by which the issuer has ensured that its non-financial reporting disclosures are materially accurate and provide an appropriate level of information for investors, to the extent that an external auditor has not reviewed or audited its non-financial reporting. We are therefore also proposing consequential amendments to the Guidance Note, to reflect the importance of an issuer providing disclosures as to the process for identifying ESG information to enable stakeholders to assess the robustness of the information presented.

### Climate-related disclosures

In 2021 the Government enacted the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (**CRDA**), which will require climate-related disclosure records to be kept and climate-reporting statements to be prepared and lodged by climate-reporting entities. This will include large listed issuers (being those whose market capitalisation is more than \$60 million).

The CRDA provides the New Zealand External Reporting Board (**XRB**) with a mandate to develop the climate-related disclosure framework for New Zealand. The XRB is currently consulting on the design of climate standards that will establish that framework.

Although these changes are legislative in nature, NZX wishes to support affected issuers in transitioning to the new regime, by identifying in the Guidance Note the key aspects of the regime, and where issuers can find more information.

### Developments in ESG

The Guidance Note was developed in 2017. Since that time there have been substantial developments in ESG reporting practices. We have taken the opportunity to include up-to-date resource references in the Guidance Note, and to make drafting changes to reflect that ESG reporting has become more well established that are designed to ensure that the Guidance Note is more 'evergreen'.

### Green bonds

The current Guidance Note includes contextual information relating to the development of the issuance of green and sustainability bonds. NZX considers that the information contained in the Guidance Note is primarily contextual and proposed deleting this section of the Guidance Note.

NZX also considers that the publication by the [FMA of the 'Disclosure framework for integrated financial reporting'](#) in December 2020 provides useful information for issuers wishing to issue green or sustainable products, and supersedes the guidance provided in the current version of the Guidance Note. NZ RegCo has also published a Practice Note 'Bond Designations' to assist issuers in identifying practical matters relating to bond designation applications (which will be updated to reflect the changes arising from this consultation, in due course). These documents are now referred to in the resources section of the Guidance Note.

## Discussion Questions

In addition to the amendments contained in the Exposure Draft, we are interested in views of submitters in relation to areas where the Guidance Note could be further developed to better assist issuers in providing ESG reporting.

NZX is aware that ESG reporting is a fast-evolving area, and that investors and other stakeholders are placing greater scrutiny on issuers' ESG reporting<sup>1</sup>. NZX is also conscious that while certain reporting frameworks are becoming more prevalent, that it is difficult for issuers to navigate the number of competing ESG frameworks. ESG assurance is also an area that is quickly developing through the work of the International Independent Assurance Standards Board, and the International Sustainability Standards Board<sup>2</sup>.

NZX wants to ensure that its guidance relating to ESG reporting remains up-to-date and has utility for issuers. We are therefore interested in submitters' views in response to the following

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<sup>1</sup> ['Key Trends that will drive the ESG agenda in 2022'](#), S&P Global

<sup>2</sup> [IASSB statement on assurance work](#), December 2021

discussion questions, which will be used to assist NZX in identifying additional areas where the Guidance Note should be further developed in future.

### Consultation Questions

1. What are the greatest challenges faced by issuers in providing ESG information to investors and other stakeholders?
2. The Guidance Note recognises that issuers have the flexibility to adopt an ESG reporting framework that is appropriate for their circumstances, and identifies three global frameworks that are commonly used (Global Reporting Initiative (GRI), Integrated Reporting Framework, and UN Global Compact).
  - a. Should NZX provide more specific guidance as to a preferred global framework?
  - b. Are the frameworks referred to in the Guidance Note appropriate?
  - c. Are any additional frameworks not mentioned in the Guidance Note that issuers should consider reporting against?
3. Do you agree with the deletion of the section of the Guidance Note that relates to Green Bonds? Should NZX publish bespoke guidance in this area?
4. Are there any other matters that you consider should be addressed in the Guidance Note?