



# Guidance Note

NZX ESG Guidance

Exposure Draft for Consultation

August 2022



Under Rule 9.15.1 of the NZX Listing Rules (**Rules**), NZX Limited (**NZX**) may act by and through NZX Regulation Limited (**NZ RegCo**) in performing any function or discharging any power set out in the Rules. References in this Guidance Note to NZX therefore also include NZ RegCo in relation to any regulatory activity or discretion.

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This guidance note applies to the obligations contained in the Rules, relating to ESG. Issuers should note that this guidance note is not intended to be a definitive statement of the application of the Rules in every situation, and is only a guide to NZX’s policy and practice. This guidance note does not limit NZX’s discretion under the rules. This guidance note reflects the [NZX Listing Rules](#) and law as at [xxxxx 40-December-2020](#) which is subject to change. NZX takes no responsibility for any error contained in this guidance note. NZX may replace guidance notes at any time and Issuers should ensure that they have the most recent version of this guidance note by checking NZX’s website at [www.nzx.com](#).



# 1. Introduction

~~In 2017, NZX released the The~~ NZX Corporate Governance Code (~~the Code~~)<sup>1</sup> provides recommendations in relation to eight corporate governance principles for issuers<sup>2</sup> to report against under the NZX Listing Rules (Rules) and updated this in January 2019 in alignment with newly reviewed Rules. The overarching purpose of Code is to promote good corporate governance, recognising that boards are in place to protect the interests of shareholders and to provide long-term value. It operates on a ‘comply or explain’ basis, which is explained in the introductory section of the Code. The Code’s corporate governance is structured around 8 principles that cover a code of ethics/ethical standards, board composition and performance, board committees, reporting and disclosure, remuneration, risk management, auditors and shareholders rights and relations.

One of the key aims of the Code is to promote issuer disclosure of environmental, social and governance factors (ESG). In particular, recommendation 4.43 states:

~~“Financial reporting should be balanced, clear and objective. An issuer should provide non-financial disclosure at least annually, including considering environmental, economic, governance and social sustainability factors and practices. It should explain how operational or non-financial targets are measured. Non-financial targets should be informative and include forward looking assessment and align with key strategies and metrics monitored by the Board.”~~

Issuers may include other non-financial information, such as a description of the performance of an issuer’s business against strategic goals. ~~Non-financial reporting is new under the NZX Corporate Governance Code. An explanation of the “comply or explain” nature of the NZX Code is included on page 5 of the NZX Code.~~

## Terminology

Often, the terms ESG, non-financial reporting and corporate social responsibility are used interchangeably. For the purposes of this note, we have elected to use the term ESG because it is a commonly used term.

## Aims Objectives of this Guidance Note

This guidance note is for ~~NZX listed~~ issuers that are considering the disclosure of ESG factors under the NZX Code. It is built on the understanding that most businesses will have some sort of interaction with one or more of the branches of ESG. While not exhaustive, this guidance note aims to help issuers better understand the benefits of ESG reporting and the global reporting regimes available.

The NZX ESG guidance note aims to:

<sup>1</sup> <https://www.nzx.com/regulation/nzx-rules-guidance/corporate-governance-code>

<sup>2</sup> Issuers of quoted equity securities are required to report against the Code by Rule 3.8.1. Issuers who solely have Debt Securities quoted or Fund Securities Quoted are not required to report against the Code, refer to Rule 1.3.1, and Rule 1.5.1. Issuers of debt securities should note that they may be subject to the legislative climate-related disclosures regime that is described further in section 7 of this Guidance Note.

- explain what ESG is;
- provide issuers context on why it is important (i.e. its relevance under the **NZX** Code and investor demand);
- provide issuers with resources for accessing more information about how to report on ESG factors, including which global frameworks are available to them; and
- help issuers communicate their strategies for identifying and managing their materially significant ESG opportunities and risks to stakeholders and investors.

This guidance should help issuers identify the most appropriate global framework against which to report, of the most widely recognised and used in New Zealand. The global frameworks identified are not exhaustive, and NZX recognizes that other frameworks not discussed here may also exist, or be developed or evolve over time.

## 2. Background—What is ESG?

The use of ESG disclosure is becoming more important in relation to investment decisions alongside other financial and strategic information. Issuers can show investors that they are equipped for the long term, and are ready to respond to risks and take advantages of opportunities.

There are three elements that help socially conscious businesses measure their sustainability and the ethical impact of an investment in their company or business. These are:

- Environmental criteria (looks at how a company performs as a steward of the natural environment);
- Social criteria (considers how a company manages its relationships with stakeholders (i.e. employees, impact on the broader community and/or suppliers));
- Governance (includes a company's leadership, executive pay and shareholder rights amongst other matters).

### ESG Reporting Factors

A definitive list of ESG issues does not exist. It would not be possible or desirable to produce a list or set of definitions that claim to be definitive because it would soon go out of date. Some branches of ESG are sector specific and a listed issuer should take a holistic view of how their business aligns with them fits, noting there are two parts to the equation – the impact a business has on the environment and the impact the environment has on a business. ESG reporting requires a business to consider both.

FTSE Russell has drawn from global standards and frameworks in the development of its ESG model<sup>3</sup>. The model involves producing an overall ESG Rating based on the three pillars of

<sup>3</sup> FTSE Russell, ESG Ratings

Environment, Social and Governance and on 14 themes adapted to reflect their materiality to businesses. The table below provides examples of ESG areas that are incorporated within the FTSE Russell framework, which are provided as a resource to assist issuers in considering areas for disclosure issues for guidance purposes. A definitive list of ESG issues does not exist. It would not be possible or desirable to produce a list or set of definitions that claim to be definitive because it would soon go out of date. Some branches of ESG are sector specific and a listed issuer should take a holistic view of how their business fits, noting there are two parts to the equation – the impact a business has on the environment and the impact the environment has on a business. ESG reporting requires a business to consider both:

### ESG Reporting Factors

1 Environmental	2 Social	3 Governance
<ul style="list-style-type: none"> <li>• Biodiversity</li> <li>• Climate change</li> <li>• Pollution and resources</li> <li>• Water security<del>use</del></li> </ul>	<ul style="list-style-type: none"> <li>• Labour Standards</li> <li>• Human rights and community</li> <li>• Health &amp; Safety</li> <li>• Customer Responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-corruption</li> <li>• Corporate Governance</li> <li>• Risk Management</li> <li>• Tax Transparency</li> </ul>

The UN Principles for Responsible Investment (PRI) is a United Nations supported network of investors whose signatories work towards promoting sustainable investment. The PRI cites a more comprehensive list:

1 Specific Environmental Issues	2 Specific Social Issues	3 Governance
<ul style="list-style-type: none"> <li>• Environmental protection</li> <li>• Air and water pollution</li> <li>• Waste management</li> <li>• Land degradation</li> <li>• Resource depletion</li> <li>• Sustainable procurement</li> <li>• Deforestation</li> <li>• Biodiversity</li> <li>• Ecosystem services</li> </ul>	<ul style="list-style-type: none"> <li>• Human rights</li> <li>• Supply chain management</li> <li>• Conflict regions</li> <li>• Labour standards</li> <li>• Human capital management</li> <li>• Talent attraction and retention</li> <li>• Access to medicines</li> <li>• Safe development of medicines</li> <li>• Government and community relations</li> <li>• Product safety and liability</li> <li>• Product mis-selling</li> </ul>	<ul style="list-style-type: none"> <li>• Executive remuneration</li> <li>• Bribery and corruption</li> <li>• Shareholder rights</li> <li>• Proxy voting</li> <li>• Business ethics</li> <li>• Board composition</li> <li>• Independent directors</li> <li>• Risk management</li> <li>• Whistle-blower schemes</li> <li>• Stakeholder dialogue</li> <li>• Lobbying</li> <li>• Government relations</li> <li>• Disclosure</li> <li>• Capital reorganizations</li> <li>• Accounting treatment</li> <li>• Succession planning</li> <li>• Audit committee structure</li> </ul>

### *Interchanging terminology (ESG, sustainability, integrated reporting, non-financial Reporting or Corporate Social Responsibility)*

Often, the terms ESG, non-financial reporting and corporate social responsibility are used interchangeably. For the purposes of this note, we have elected to use the term ESG because it is a commonly used term.

### 3. How Why is ESG relevant to my company?

There are many reasons why ESG is relevant to corporate governance. Three of these are identified briefly below:

#### Global acceptance ~~A changing global environment~~

All over the world, it is now considered 'mainstream' for companies and entities ~~are coming~~ to report on ESG and responsible investment. These trends reflect the need to shift to a low carbon economy, increasing business vulnerability to the effects of climate change and other environmental and social factors, a generational changeover and institutional forces. The major move towards investment in these areas worldwide includes:

- there are now approximately 3,800 signatories to the ~~UN Principles of Responsible Investment (UN PRI)~~ PRI who now represent \$~~12060~~120tn in assets under management – up from \$22tn in 2010, and \$60tn in 2017<sup>4</sup>.
- ~~recent research from developed by~~ Global Sustainable Investment Alliance suggesting that sustainable investing strategies now represent more than 60% of professionally managed assets for EU investors KPMG in partnership with RIAA, shows that the proportion of responsible investment assets to total managed funds grew in Australia from 31 percent in 2019, to 40 percent in 2020, despite there only being a 2 percent increase in all professionally managed funds in Australia over the same period<sup>5</sup>.
- global sustainable investments reaching USD 35 trillion in assets under management in 2020, equating to 36% of all professionally managed assets<sup>6</sup>

~~a recent Barclays study also found that investment grade bonds with higher ESG scores outperformed those with lower ESG scores between 2007 and 2015.~~<sup>7</sup>

~~responsible investments have more than quadrupled over the past 3 years in Australia to \$622 billion in assets under management in 2016 with nearly half (44%) of Australia's assets under management now being invested through some form of responsible investment strategy.~~<sup>8</sup>

~~responsible investment funds are largely outperforming their average mainstream counterparts year on year as the market for responsible investment grows in Australia.~~<sup>9</sup>

The global context of this movement is discussed more in section para 4 of this Guidance Note, 'New Zealand's Our Global Commitments'.

#### Investor interest

##### Increasing investor interest

<sup>4</sup> Information about the UN PRI signatories is available here.

<sup>5</sup> Responsible Investment Benchmark Report, Australia 2021, Responsible Investment Association Australasia.

<sup>6</sup> Global Sustainable Investment Review 2020, Global Sustainable Investment Alliance.

<sup>7</sup> Source—Barclays: <https://www.investmentbank.barclays.com/content/dam/barclaysmicrosites/ibpublic/documents/our-insights/esg/barclays-sustainable-investing-and-bond-returns-3-6mb.pdf>

<sup>8</sup> Source—Responsible Investment Association Australia: Responsible Investment Benchmark Report 2017 Australia

<sup>9</sup> As above.

Investor decision-making is key to ESG reporting. Climate change and depletion of resources mean investors, ~~particularly younger ones~~, may consider sustainability as an important factor when making investment choices, and that issuers who provide disclosures in this area may benefit from more efficient access to capital. Evidence based disclosure can help investors make conscious investment choices by providing a more holistic view of an issuer's performance, risks and opportunities. ~~Commentary indicates that more investors are asking questions about corporate responsibility and looking for evidence based answers when choosing where to invest.~~

The PwC Global Investor Survey from 2021, which surveyed 325 global investors (the majority of whom were active asset managers) found that investors are now paying more attention to ESG risks and opportunities with 80% saying that ESG was an important factor in their decision-making<sup>7</sup>, and about 50% saying they were willing to divest from companies that did not take sufficient action on ESG.

~~When communicating to investors and stakeholders about long term issues associated with ESG, particularly environmental issues, issuers should be able to express where their organization sits on the spectrum of companies with an ESG footprint and what, if anything, is being done to mitigate their impact. The purpose of this is to provide investors with a clearer picture of the issuer and its business.~~

### **Informs the over-arching long-term strategic view of business**

ESG reporting ~~aids already improves the utility of issuers' existing disclosures by issuers so that by providing~~ investors have a with better context for the richer view into the long-term strategy of the issuer. Issuers should ~~think about~~ consider how ESG fits within the current and future strategy for their ~~company, and how ESG fits into this business~~. There is no one-size-fits-all approach for ESG reporting and depending on the nature of its business, some issuers may find certain areas of ESG more relevant than others. ~~However, climate, population and customer demographic and technology changes are all important overarching themes to consider for ESG reporting and issuers are encouraged to use the range of tools available to them to think about the impact of their business broadly and critically.~~

## **4. Our New Zealand's Global Commitments**

### **Sustainable Stock Exchange Initiative and NZX**

In 2016 the Sustainable Stock Exchange invited NZX to become a Partner Exchange of the SSE by making a voluntary public commitment to promote ESG disclosure and performance among issuers. The SSE initiative is organised by the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environmental Program Finance Initiative (UNEP FI) and the ~~UN~~-PRI to promote transparency on ESG issues by exchanges.

As a member of the SSE NZX promotes disclosure of relevant ESG matters by issuers. In order to achieve New Zealand's environmental and sustainability goals, the New Zealand Government ~~is re-examining its own opportunities and challenges of a transition to a lower net emissions economy~~ has established a whole of Government framework that drives climate

<sup>7</sup> The Economic Realities of ESG, PwC UK.

change policy towards low greenhouse gas economy and climate resilience to support New Zealand's commitments under the Paris Agreement<sup>8</sup>. In 2021 the Government passed legislation that makes climate-related disclosures mandatory for certain organisations, including some issuers (more information about these requirements is included in section 7 of this Guidance Note).<sup>40</sup> The focus on this work indicates that 'green' reporting and finance and disclosure is becoming mainstream.

## UN Sustainable Development Goals

New Zealand is party to the UN Sustainable Development Goals. In September 2015, the United Nations signed up to 17 Sustainable Development Goals (SDGs) and 169 targets.

The Human Rights Commission has specifically noted ~~this as a point in its submission to NZX on the NZX Code stating~~ that "ESG Reporting is a way that our national exchange, NZX, and listed issuers can contribute to the UN Sustainable Development Goals."

The 17 goals and 169 targets set out a universal agenda to achieve sustainable development globally, to be achieved by 2030. They bring together the three dimensions of sustainable development: economic, social and environmental. They apply to all countries. Although the goals are not legally binding, countries are expected to report voluntarily on implementation. Best practice corporate responsibility reports link their strategy for managing ESG to the Sustainable Development Goals.

## The Paris Agreement

On 12 December 2015 the ~~new~~ global agreement on climate change, The Paris Agreement, was adopted by Parties under the United Nations Framework Convention on Climate Change (UNFCCC), including New Zealand. It entered into force in New Zealand on 4 November 2016 and ~~will take~~took effect from 2020.

The aim of The Paris Agreement is to keep global temperatures under 2 degrees above pre-industrial levels, and to pursue efforts to limit the temperature increase even further. New Zealand's commitments under the Paris Agreement include a target of reducing net emissions by 50 per cent below 2005 gross emissions for the period 2021-2030<sup>9</sup>.

## ~~The Financial Stability Board Taskforce on Climate Related Financial Disclosures~~

~~The Financial Stability Board Taskforce on Climate Related Financial Disclosures (FSB-TCFD) was set up by the G20's Financial Stability Board to provide such a framework to improve the ability to~~

<sup>8</sup> More information about the Government's climate-change work programme is available [here](#).

<sup>40</sup> In April 2017, the current Minister of Finance shared the Terms of Reference for a Productivity Commission Inquiry into the Opportunities and Challenges to a Lower Net Emissions Economy for New Zealand. The purpose of this Commission of Inquiry is to identify options how New Zealand could reduce its domestic greenhouse gas emissions through a transition towards a lower net emissions future, while at the same time continuing to grow incomes and wellbeing.

The outgoing Environmental Commissioner in her final address during July 2017 asked New Zealand's political parties to unite on the common goal of finding a solution to climate change and setting achievable carbon budgets. The United Kingdom approach to carbon reduction via carbon budgets was used as an example of carbon levels can be successfully reduced through collective strategic efforts.

<sup>9</sup> More information about New Zealand's Nationally Determined Contribution is available [here](#).



~~assess and price climate-related risk and opportunities.~~

~~In mid-2017 it published its final report outlining its recommendations. It structured its recommendations around four thematic areas that represent core elements of how organisations operate; governance, strategy, risk management and metrics and targets.~~

~~In particular, FSB TCFD recommend that organisations disclose the specific metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. It states in its final report:~~



~~“Investors and other stakeholders need to understand how an organization measures and monitors its climate-related risks and opportunities. Access to the metrics and targets used by an organization allows investors and other stakeholders to better assess the organization’s potential risk-adjusted returns, ability to meet financial obligations, general exposure to climate-related issues, and progress in managing or adapting to those issues. They also provide a basis upon which investors and other stakeholders can compare organizations within a sector or industry.”~~

~~They should do so by:~~

~~disclosing the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process;~~

~~disclosing Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks;<sup>14</sup> and~~

<sup>14</sup> -“Scope” refers to greenhouse gas (ghg) emissions scope level. Scope 1 refers to all direct GHG emissions. Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g. transmission and distribution losses), outsourced activities, and waste disposal. See page 63 of Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures. <https://www.fsb-tcfid.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf>

~~describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.~~

~~For more information, the full report is available [here](#).~~

## UN Human Rights and their Principles

In 1948 New Zealand ratified the Universal Declaration on Human Rights. Since then, New Zealand has generally had a good track record in relation to human rights, linking to the 'social' branch of ESG. New Zealand has international obligations under a range of UN treaties ~~to~~ which it has ratified and specific legislation such as the Human Rights Act 1993 and the Bill of Rights Act 1990. The full scope of New Zealand's relationship to human rights is beyond the scope of this guidance note. ~~However, more information can be found on the website of the Human Rights Commission [here](#).~~ There is an important link between ESG reporting and human rights because this is something issuers already likely comply with and can report on to improve New Zealand's overall rating for the 'social' branch of ESG (or corporate reporting) when it is linked to the UN Human Rights Principles. This may help issuers appeal to international investors who are looking to invest funds in ethical, sustainable businesses with a good record of social responsibility.

## 5. What are the available global frameworks in New Zealand?

While there is no consensus on reporting standards globally, there are a range of global frameworks available for issuers to report against that are widely cited by investors. No one framework is preferred by NZX, but it may be issuers find a particular framework a better fit for their company. While the sheer number of standards, frameworks and data requirements can be overwhelming, it is important to consider your business and what model works best for your company. As a result, NZX has short-listed the global reporting frameworks down to three commonly used in Australia and New Zealand, based on consultation undertaken in developing this guidance.<sup>10</sup>

Different data is required across the different reporting frameworks. Lack of standardization means it can be difficult to use data ~~can be difficult~~ to compare issuers. However, globally all listed issuers and the business community at large are working towards consensus on what constitutes relevant information for issuers.

If none of the below frameworks are considered viable by an issuer, the issuer should still consider providing ESG information using guidance and the relevant framework as a guide, or adopting an alternative global framework. ESG reporting could be accompanied by an explanation regarding why a global framework is inappropriate for that issuer and any targets that the issuer has to implement a global framework over the longer term.

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<sup>10</sup> We note that KPMG have found that GRI is the most popular reporting framework in Australasia, with Integrated Reporting gaining ground. The Global report from KPMG 'The road ahead' is available [here](#) and is a useful resource to understand the global context of corporate responsibility better: [https://home.kpmg.com/content/dam/kpmg/campaigns/csr/pdf/CSR\\_Reporting\\_2017.pdf](https://home.kpmg.com/content/dam/kpmg/campaigns/csr/pdf/CSR_Reporting_2017.pdf). A 2017 New Zealand Corporate Responsibility Survey Supplement is also available from KPMG: <https://home.kpmg.com/content/dam/kpmg/nz/pdf/November/02261-Corporate-Sustainability-Report-2017-Digital.pdf>

## The Leading Global ESG Frameworks

Global Reporting Initiative (GRI)	Integrated Reporting.	UN Global Compact (UNGC).
<p>GRI Sustainability Reporting Standards are the most widely used standards for reporting on ESG impacts globally, and have been developed over many years through multi-stakeholder contributions. GRI Standards aim to meet the information of all stakeholders, and modular structure supports both comprehensive reports and selected disclosures.</p> <p><a href="http://www.globalreporting.org">www.globalreporting.org</a>.</p>	<p>The Integrated Reporting Framework helps companies to produce a concise, investor focused report that looks at an issuers performance and prospects through the lens of six 'capitals' (financial, manufactured, human, natural, intellectual, social and relationship). This framework can be used in conjunction with other specific ESG frameworks.</p> <p><a href="http://www.integratedreporting.org">www.integratedreporting.org</a>.</p>	<p>The Global Compact requires companies to commit to a set of ten universal principles concerning human rights, labour, environment and anti-corruption.</p> <p><a href="http://www.unglobalcompact.org">www.unglobalcompact.org</a>.</p>

## 6. What should be reported?

Issuers may wish to consider reporting as follows:

1. Explain the relevance of environmental, social and governance factors to their business models and strategy. These factors should not be 'bolt-on' but an integrated component of business drivers and considerations.
2. Explain how ESG issues may affect their business, e.g. through legislation, reputational damage, employee turnover, licence to operate, legal action or stakeholder relationships, and how these impacts may affect business strategy and financial and operational performance (also known as 'value mapping').
3. Explain how they intend to access the new opportunities and revenue streams generated by green and socially beneficial products and services. In this context they should explain how their investments in innovation and R&D will drive future growth for the business.
- 3.4. Explain the material ESG risks faced by their business, how they intend to manage ESG risks, and the risk management framework that they use to identify, monitor and manage those risks.
- 4.5. Identify the parts of the business that manufacture or provide goods, products and services delivering environmental solutions and supporting the transition to a low carbon economy; and break down and quantify the associated revenues.
6. Provide data that is accurate, timely, aligned with their fiscal year and business ownership model, and based on consistent global standards to facilitate comparability.
7. Recognise that reporting is just one part of the wider dialogue they have with their investors. ESG reporting, irrespective of the specific format, provides a basis for dialogue with investors and other key stakeholders but is not a replacement for it.

In addition, there are legislative requirements for mandatory climate-related

disclosures to be made by certain issuers, which are discussed in the next section of this Guidance Note.

## **7. Climate-related Disclosures**

In 2021 the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (CRDA) was enacted, which amends certain provisions of the Financial Markets Conduct Act 2013 (FMCA). -

This legislation introduces a new climate-related disclosure regime which will apply to climate-reporting entities, including certain listed issuers.

The CRDA has provided the New Zealand External Reporting Board (XRB) with a mandate to develop a climate related disclosures framework for New Zealand. The regime will be enforced by the FMA.

### **Climate-related Disclosures Standards**

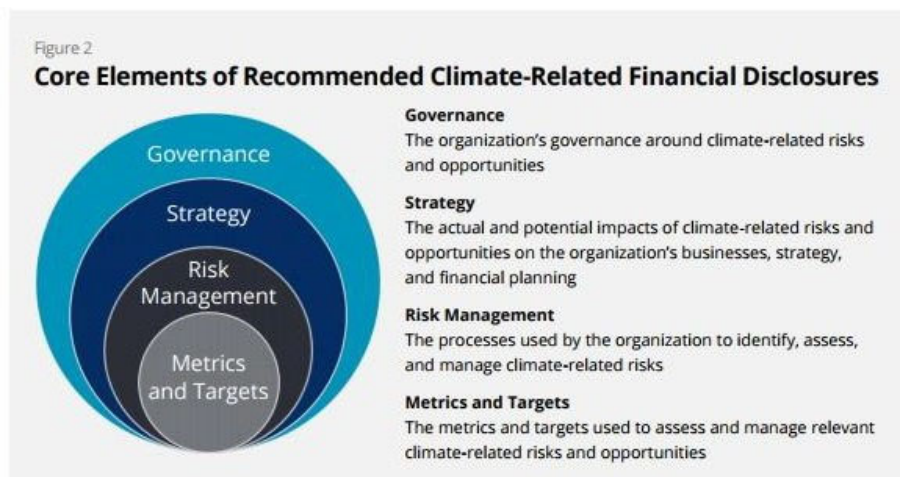
The XRB intends to issue the following standards which will form the basis for the climate-related disclosures framework:

- Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS1),
- Aotearoa New Zealand Climate Standard 2: Adoption of Climate-related Disclosures (NZ CS 2),
- Aotearoa New Zealand Climate Standard 3: General Requirements for Climate-related disclosures (NZ CS 3), and
- Aotearoa New Zealand Climate -related disclosures Concepts (NZ CRDC).

More information about the standards and the regime is available on the XRB website.

The Financial Stability Board Taskforce on Climate Related Financial Disclosures (TCFD) was set up by the G20's Financial Stability Board to provide a framework to improve the ability to assess and price climate-related risk and opportunities. This framework is being used by the XRB to develop NZ CS 1.

The TCFD framework has structured its recommendations around four thematic areas that represent core elements of how organisations operate: governance, strategy, risk management and metrics and targets. These areas will be reflected in NZ CS 1 against which climate-reporting entities will be required to report.



### Who does the Climate-related Disclosures regime apply to?

Climate-reporting entities will include 'large listed issuers' as defined by section 461P of the FMCA<sup>11</sup>, being listed issuers of quoted debt or equity securities with a market capitalisation of more than \$60 million<sup>12</sup>.

In addition, other organisations in New Zealand such as large registered banks, insurers and fund managers will be subject to the regime.

### Is the Climate-related Disclosures regime voluntary?

Reporting under the regime will be mandatory. Climate-reporting entities will need to keep proper climate-related disclosure records and prepare and lodge climate-reporting statements within 4 months of the entity's balance date, in accordance with the requirements of the CRDA.

### When does the Climate-related Disclosures regime become effective?

The regime commences for accounting periods that start on or after the XRB's publication of a climate standard, which is expected to occur in December 2022. This means the regime is likely to become effective for reporting periods that start on or after 1 January 2023.

## 8. How to approach reporting on ESG

### ~~Consider which framework of those available is most appropriate for your business and operations~~Choose an appropriate framework

Issuers should define their business and reporting boundaries, taking into consideration the nature of their business, the geographical span of operations, subsidiaries, joint ventures and supply chain.

#### *Identifying Key Stakeholders*

Issuers should consider who their key stakeholders are and how their reporting or gathering of data may affect ~~those stakeholdersem~~ or require their feedback. Stakeholders can include employees, customers, suppliers, distributors, community, unions, shareholders, investors and government.

#### *Identifying materiality for those Stakeholders*

There is no one method to correctly identify relevant, or material information. However, it is important that issuers gain an understanding of what is material and bring that information to the attention of investors and other stakeholders. For instance, investors may be interested in whether an issuer can successfully respond to a climate change risk or demonstrate future viability and resilience. An example of this could be an energy company considering investing

<sup>11</sup> Which is not yet in force as at the date of this Guidance Note but will be enacted through an amendment to the FMCA contained in the CRDA becoming effective.

<sup>12</sup> Issuers are encouraged to refer to the definitions contained in the legislation to determine whether or not they are climate reporting entities. In particular foreign exempt issuers and issuers who solely have wholesale debt quoted should consider whether they are excluded from the regime.

in wind generation. The company should articulate to its shareholders the investment case, the sources of investment risk and how practices and performance will be measured, looking at both qualitative and quantitative data and the likely business, environmental, social and broader economic outcomes.

The International Accounting Standards Board<sup>13</sup> defines information as 'material' in relation to financial statements, as information that which could, if omitted or misstated, or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity', ~~economic decisions of readers relying on financial statements.~~

~~ASX in their ESGits guidance note defines material as relating to disclosures made under ASX Corporate Governance Code recommendation 7.4 (which recommends that an issuer disclose whether it has any material exposure to environmental or social risks), defines a material exposure as 'a real possibility that the risk in question could materially impact the listed entity's ability to create or preserve value for security holders over the short, medium or longer term'~~<sup>14</sup>.

~~"ESG risks are material, where a reasonable person would consider the information to have an impact on a company's valuation or the sustainability of its operations. The risk(s) could have an immediate or foreseeable impact on earnings, an impact on a balance sheet, or an impact on the sustainability of its operations"~~<sup>15</sup>

In its consultation on the development of NZ CS 3, the XRB has proposed a concept of materiality that acknowledges that materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates<sup>15</sup>.

Other guidance about 'materiality' can be found online at the following:

- ~~KPMG published guidance in August 2017 explaining materiality in the context of the NZX Corporate Governance Code to help bridge the gap between what companies are currently doing and how to provide value to investors and stakeholders in relation to non-financial reporting:~~  
~~[https://home.kpmg.com/nz/en/home/insights/2017/09/materiality\\_assessment.html](https://home.kpmg.com/nz/en/home/insights/2017/09/materiality_assessment.html)~~
- The International Integrated Reporting Council and International Federation of Accountants released the publication, 'Materiality in Integrated Reporting' which offers guidance. This is available here at <https://integratedreporting.org/resource/materiality-in-integrated-reporting/>.
- Materiality is explained in respect of GRI reporting here on the G4 website, [here](#).

<sup>13</sup> The International Accounting Standards Board (IASB) is an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRSs). See definition here.

<sup>14</sup> ASX Listing Rules, Guidance Note 9, January 2020.

<sup>15</sup> ~~<http://www.asx.com.au/documents/asx-compliance/acsi-fsc-esg-reporting-guide-final-2015.pdf>~~

<sup>15</sup> 'Climate-related Disclosures – Strategy and Metrics and Targets Consultation Document, NZ CS 1' March 2022, available here.

<https://g4.globalreporting.org/how-you-should-report/reporting-principles/principles-for-defining-report-content/materiality/Pages/default.aspx>

Issuers should also be mindful of continuous disclosure obligations, which requires the disclosure of material information. The materiality test is different in this context and issuers should see the NZX Guidance Note Continuous Disclosure for further information.

### *Develop a strategy*

Issuers may develop a strategy to address the identified risks and opportunities for ESG. The ~~s~~Strategy should drive reporting, rather than reporting driving strategy.

### *Identify indicators of ESG themes*

Issuers should look at specific practices, outputs, impacts and, where relevant, results in their business, as indicators of how it is performing on its material ESG issues, and whether this is applicable to the whole business or just a specific area. These should be drawn from both qualitative and quantitative data.

The challenge is to identify the most relevant indicators and the ESG global frameworks which are most relevant. There may be a combination; for example, GRI may be used as a specific subset standard within a broader framework such as Integrated Reporting. ~~Some NZX Listed Issuers already do (using GRI and Integrated Reporting).~~

A company should take into account ~~its own sector to report on~~ the sector in which it operates when determining the best approach to ESG reporting. For instance, a company that has a strong reliance on employees, like a software company, might report on employee attrition in its KPI's. An eco-tourism company, on the other hand, would likely need to include opportunities and risks in relation to sustainability and environmental impact, and how that relates to its financial return.

### *Provide data*

Information for ESG reporting needs to be complete, consistent, reliable, comparable and clear. Data should provide evidence of any assertions made.

The characteristics of Investment Grade Data include:<sup>16</sup>

- Accuracy – deploy rigorous data collection systems.
- Boundaries – align to the fiscal year and business ownership model.
- Comparability and consistency – use consistent global standards, ~~to facilitate~~
- Data provision – provide raw as well as normalised data.
- Timeliness – provide data to coincide with the annual reporting cycle.

<sup>16</sup> See London Stock Exchange Guidance on ESG Reporting, available here:–  
[https://www.lseg.com/sites/default/files/content/images/Green\\_Finance/ESG\\_Guidance\\_Report\\_LSEG.pdf](https://www.lseg.com/sites/default/files/content/images/Green_Finance/ESG_Guidance_Report_LSEG.pdf)

- External assurance – consider strengthening the credibility of data by having it assured, and
- Balance – provide an objective view, including both favourable and unfavourable information.

In order to allow comparability between peers, it is preferable to use consistent global standards when reporting if this is possible for the issuer. Issuers should gather data in line with common practices and report in a similar manner to sector peers when possible.

The method that the issuers selects to report should remain consistent year-to-year. If the circumstances of the issuer changes, or any underlying assumption changes in its business, an issuer should explain the change to its business in its annual reporting, explicitly referring to ESG. An issuer may want to communicate sooner if a controversy or incident has taken place. An issuer may consider it more appropriate to present information in a standalone sustainability report

The issuer may consider making raw data available to allow investors to cross compare issuers should they wish. Issuers can also support data interpretation by providing contextual data (i.e. number of staff and contractors, turnover, countries in which they operate), normalized data (i.e. interpreting process around set targets) and explanations (i.e. narrating the data, particularly where it may have influenced performance either positively or negatively).

*Providing an objective view of results with external assurance meaningful disclosure of the quality of the information presented*

An issuer may wish to strengthen credibility of its ESG data through external assurance. This can be conducted through the same process as financial reporting using qualified auditors. The manner in which external assurance was sought should be described.

The NZX Code commentary to recommendation 4.4 also notes that to the extent that an external auditor has not reviewed or audited its non-financial reporting, that an issuer is encouraged 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.

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In addition, issuers should try and present favourable and unfavourable information clearly and in full. Efforts to obscure information may create mistrust. Commentary may be provided to guide more difficult subjects.

## 9. Reporting formats

*How should the report be presented?*

An ESG report ESG information should be presented in an issuer's annual report either as part of the issuer's corporate governance reporting, or include as d as an external link (including a short summary of the issuer's full ESG report with a link to where more fulsome disclosure is available on the issuer's ) which is easy to locate on the issuer website.



~~It is important that This should make up part of the an issuer's wider aAnnual rReport identifies ESG to ensure information, to ensure that it is easily identifiable for isan issuer's investor and other stakeholders widely and readily available to issuers. Any reporting should be easy to find, understand and access. An issuer can also address ESG in a standalone report.~~

### *Importance of making Integrated Reporting comprehensive*

~~An integrated report aims to offer investors a more rounded, concise and holistic insight into business performance and impact over the short, medium and long term. The integrated reporting framework developed by the International Integrated Reporting Council (IIRC) guides organisations that want to understand and articulate to investors how their interactions with financial, human, natural and other forms of 'capital' affect business prospects, and emphasises disclosure of better information rather than more information.~~

~~Users of integrated reporting alone should note the potential impact of making current reports to investors more concise. Issuers should consider their own business model and the breadth of their investors' interests before adopting integrated reporting. They may also wish to consider supplementing integrated reporting with further ESG information available on their website.~~

## 10. Communication with shareholders

Investors want to better understand how a company is positioned to deliver long term sustainable value. Shareholders increasingly wish to understand why an issuer has made certain decisions in respect of ESG risks and opportunities and how decisions have been made. Issuers should use corporate reporting as a tool to communicate long term strategy, material issues and the future social, environmental and economic outcomes being pursued through their current activities. More information about shareholder rights and relations can be found in Principle 8 of the NZX Code.

### *Timeframes*

~~An appropriate time to provide ESG data is at the same time as providing your corporate governance reporting under the NZX Code as part of an annual report, although listed issuers may also wish to provide more regular disclosure on their websites. It is important that the annual report either includes an issuer's ESG report, or provides a link to where it provides more fulsome ESG informationThis, as the annual report is provided on a routine basis at a well signalled time. This allows is-so-that investors to know when they can expect to receive updated information and for consistency with other reporting criteria. There are also the disclosure requirements if something that materially impacts the share value occurs.~~

## 9. Green Bonds

~~Another element of green finance that complements transparent sustainability reporting is green financial products, such as green Exchange Traded Funds (ETFs) and green bonds. Globally, there is a growing international trend towards sustainable investment and investors who are more conscious of where they put their money (i.e. do not want to invest money in investments that may be considered unethical). Now, some listed issuers are beginning to issue green bonds in New Zealand.~~

A green bond is a bond where proceeds are used to finance or refinance climate-friendly or environmental projects. The market has been in existence since 2008, and as at the end of 2015 reached USD \$41.8bn of labelled green bonds issued globally. In 2016 it was USD \$87.2b and in 2017 to date has been USD \$155.5b. The market is open to many types of issuers: Corporations, Governments and semi-government bodies, Financial Institutions and Asset Owners. As at the drafting of this guidance, NZX issuers are already invested in the creation of green bonds.



Many exchanges worldwide have been involved in the promotion and accreditation of new products. NZX would like to support the development of green financial products, promoting transparency and potentially assisting with accreditation to help the market recognize which products are 'green'.<sup>17</sup> Other exchanges around the world, such as the London Stock Exchange and Singapore Stock Exchange, have taken this step to label green financial products.

Issuers of green bonds could consider disclosing information about internal assurance processes or consider independent external assurance to provide investors with a greater degree of comfort over the integrity of information disclosed.

### **How to issue a green bond**

There are two main options to guide a green bond. An issuer can either follow:

The Green Bond Principles; or  
Climate Bond Initiative Standards

The Green Bond Principles and the Climate Bond Initiative have established requirements that need to be met by green bonds. Both provide a framework for identifying and applying bond proceeds to a range of green projects and expenditures and view assurance as a key element in unlocking the additional "ethical" value of a green bond assuring the long-term integrity of green bonds.<sup>18</sup>

#### *The Green Bond Principles<sup>19</sup>*

The Green Bond Principles, updated as at June 2017, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond market by clarifying the approach for issuance of a green bond. The Principles are intended for broad use by the market. They provide issuers guidance on the key components involved in launching a credible green bond, aid investors by ensuring availability of information necessary to evaluate the environmental impact of their green bond investments and assist underwriters by moving the market towards standard disclosures which will facilitate transactions.<sup>20</sup> The Green Bond Principles include, but are not limited to, consideration of investment in the following areas:

Renewable energy

Energy efficiency (including efficient buildings)

Pollution prevention and sustainable waste management

Sustainable land use (including sustainable forestry and agriculture)

Biodiversity conservation

Clean transportation

<sup>17</sup> See question 13 on page 12 of a discussion paper dated 27 September 2017 [here](#)

<sup>18</sup> <http://www.ey.com/nz/en/services/specialty-services/climate-change-and-sustainability-services/ey-lets-talk-sustainability-issue-3-bonds-green-bonds>

<sup>19</sup> [https://www.icmagroup.org/assets/documents/Regulatory/Green Bonds/GreenBondsBrochure\\_JUNE2017.pdf](https://www.icmagroup.org/assets/documents/Regulatory/Green%20Bonds/GreenBondsBrochure_JUNE2017.pdf)

<sup>20</sup> [https://www.icmagroup.org/Regulatory Policy and Market Practice/green-social-and-sustainability-bonds/green-bond-principles-gbp/](https://www.icmagroup.org/Regulatory%20Policy%20and%20Market%20Practice/green-social-and-sustainability-bonds/green-bond-principles-gbp/)

Sustainable water management (including clean and/or drinking water)

Climate change adaptation

Eco-products

Green buildings

*Climate Bond Initiative Standards*<sup>24</sup>

Climate Bonds Standard & Certification Scheme are already being used by NZX listed issuers to verify green bonds issued. The Climate Bonds standards is the requirements and eligibility criteria for Climate Bond Certification, based on the current version as published on the Climate Bonds Initiative website (<https://www.climatebonds.net/standards>).

For issuers, the Climate Bonds Standard & Certification Scheme is a voluntary initiative, which allows them to clearly demonstrate to the market that their bond meets industry standards for climate integrity, management of proceeds, and transparency. The key difference from the Green Bond Principles are:

Green assets supported by the green bond are required to meet sector specific technical criteria and;

Issuers must obtain assurance over the green bond for the Climate Bonds Standard Board to certify the bond

The Certification Scheme is made up of the overarching Climate Bonds Standard Version 2.1 and a number of Sector Specific Criteria that provide detailed eligibility criteria for different sectors, such as:

Solar energy;

Wind energy;

Geothermal energy;

Low carbon buildings;

Low carbon transport;

Water;

Marine Energy;

Land Use and Hydropower (under development)The requirements of the Climate Bonds Standard are separated into pre-issuance requirements, which need to be met for listed issuers seeking certification ahead of issuance, and post-issuance requirements, which need to be met by issuers seeking continued certification following the issuance of the bond.

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<sup>24</sup> [https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2\\_1%20-%20January\\_2017\(1\).pdf](https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017(1).pdf)

~~Technical Working Groups and Industry Working Groups provide the expertise for the development of these Sector-Specific Criteria which are approved by the Climate Bonds Standard Board.~~

## Further Resources

More background about ESG can be found at the following:

- [NZX.com, including the Practice Note relating to Bond Designations.](#)
- [XRB – Climate-related Disclosures](#)
- [FMA:](#)
  - [Role in an integrated financial system](#)
  - [Disclosure framework for integrated financial products](#)
  - [Green bonds – same class exclusion](#)
- [Sustainable Stock Exchanges Initiative](#) - The Sustainable Stock Exchanges (SSE) initiative is a peer-to-peer learning platform for exploring how exchanges (in collaboration with investors, regulators, and companies) can promote responsible investment for sustainable development. — ([www.sseinitiative.org](http://www.sseinitiative.org))
- [The Sustainable Business Council](#) - The Sustainable Business Council (SBC) is the New Zealand member of the World Business Council for Sustainable Development that advocates a better way of doing business, one which creates a sustainable future- (<http://www.sbc.org.nz>).
- [United Nations Principles of Responsible Investment](#) – The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. — (<https://www.unpri.org>)
- [The International Integrated Reporting Council \(IIRC\)](#) - The IIRC is a worldwide coalition with the mission to mainstream integrated thinking and reporting and to change the corporate reporting system so that Integrated Reporting becomes the global norm- (<https://integratedreporting.org/>).
- [UN Global Compact Guide To Sustainability](#) - Lays out five defining features of corporate sustainability, which the Global Compact asks businesses to strive towards – looking at why each element is essential, how business can move forward and what the Global Compact is doing to help. — (<https://www.unglobalcompact.org/library/1151>).
- [SDGs](#) - The United Nations Sustainable Development Goals are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.
- [GRI Standards](#) - The Global Reporting Initiative's GRI Standards are the first global standards for sustainability reporting. They feature a modular, interrelated structure, and represent the global best practice for reporting on a range of economic, environmental and social impacts (<https://www.globalreporting.org/standards>).

- [Sustainability Accounting Standards Board](http://www.sasb.org) - The Sustainability Accounting Standards Board is a US non-profit organization incorporated in 2011 to develop and disseminate sustainability accounting standards ~~([www.sasb.org](http://www.sasb.org))~~.
- [CDP](http://www.cdp.net) - The CDP (formerly the "Carbon Disclosure Project") is an organisation based in the United Kingdom which supports companies and cities to disclose the environmental impact of major corporations. It aims to make environmental reporting and risk management a business norm, and drive disclosure, insight and action towards a sustainable economy ([www.cdp.net](http://www.cdp.net)).
- [WFE Website](http://www.world-exchanges.org) - The World Federation of Exchanges, formerly the Federation Internationale des Bourses de Valeurs, or International Federation of Stock Exchanges, is the trade association of 63 publicly regulated stock, futures, and options exchanges ([www.world-exchanges.org](http://www.world-exchanges.org)).
- [Greenhouse Gas Protocol](http://www.ghgprotocol.org) - A nearly 20-year long partnership between the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), the Greenhouse Gas Protocol (GHG Protocol) works with governments, industry associations, NGOs, businesses, and other organizations around the world to build credible, effective, and robust GHG accounting and reporting platforms that serve as a foundation to address climate change. It establishes comprehensive, global, standardized frameworks for measuring and managing emissions from private and public sector operations, value chains, products, cities, and policies. ~~([www.ghgprotocol.org](http://www.ghgprotocol.org))~~
- [Corporate Eco Forum](http://www.corporateecoforum.com/) – Corporate Eco Forum is an invitation-only membership organization for large companies that demonstrate a serious commitment to sustainability as a business strategy issue. ~~(<http://www.corporateecoforum.com/>)~~
- [World Environment Centre](http://www.wec.org) – The World Environment Centre is an independent, global, non-profit, non-advocacy organization that advances sustainable development through the business practices of member companies and in partnership with governments, multi-lateral organizations, non-governmental organizations, universities and other stakeholders ~~(<http://www.wec.org>)~~.

