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Consultation Paper on Sustainability Reporting
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NZX Submission: Consultation Paper on Sustainability Reporting

NZX Limited (**NZX**) is pleased to submit this response to the International Financial Reporting Standards Foundation (**IFRS Foundation**) consultation paper on Sustainability Reporting (**Consultation Document**).

We thank the IFRS Foundation for the opportunity to make this submission and look forward to contributing to the development of a global standard in sustainability reporting.

Nothing in this submission is confidential.

About NZX and Sustainability Reporting

NZX is a licensed market operator of New Zealand's exchange. NZX operates New Zealand's equity, debt, funds, derivatives and electricity markets. NZX has approximately 200 listed issuers with a total market capitalisation of approximately \$224 billion, who will be affected by the matters raised in the Consultation Document.

In 2016, the Sustainable Stock Exchange (**SSE**) invited NZX to become a Partner Exchange of the SSE by making a voluntary public commitment to promoting ESG disclosure and performance among issuers. The SSE initiative is organised by the UN Conference on Trade and Development, the UN Global Compact, the UN Environmental Program Finance Initiative and the UN Principles for Responsible Investment, to promote transparency for ESG issues by exchanges. As a member of the SSE, NZX promotes disclosure of relevant ESG matters by issuers.

Listed issuers on NZX's Main Board must comply with NZX's Listing Rules which also incorporate the NZX Corporate Governance Code (**NZX Code**). The aim of the NZX Code is to promote good corporate governance of listed issuers including in respect of their ESG conduct, incorporating elements of sustainability reporting. NZX supports issuers' compliance with the ESG aspects of the Code, through guidance contained in the [NZX ESG Guidance Note](#). The NZX Code operates on a 'comply or explain' basis and NZX does not prescribe any ESG reporting standards, although we recommend that our issuers consider reporting against one of the recognised global frameworks including the GRI Sustainability Reporting Standards, Integrated Framework or UN Global Compact.

We are pleased to report that we have seen a major increase in integrated reporting and the fresh adoption of TCFD reporting among 14 issuers this year. A full version of our report into ESG reporting practices on our markets is available [here](#).

NZX is supportive of the IFRS Foundation's aim of reaching a consensus on sustainability reporting standards. NZX considers that a robust sustainability reporting framework will act as a foundation for New Zealand's goal of becoming a fully sustainable and climate resilient economy by 2050. With the rise of impact investing, and greater attention to the environmental impacts of businesses and industries, there has been an increase in demand for sustainability reporting, as investors factor such information into their decision-making processes. This has resulted in a growing need for a concerted global effort towards the development of a sustainability reporting framework that ensures comparability in sustainable reporting practices.

Response to consultation questions

In this section of our submission, we provide our response to the specific questions raised in the Consultation Document.

Q1. Is there a need for a global set of internationally recognised sustainability reporting standards?

Yes

a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard-setting into this area?

Yes. The IFRS Foundation is best equipped to prescribe sustainability standards on a global scale, as it is a globally recognised and reputable entity. As the IFRS Foundation already considers the various factors involved with the creation and application of general financial reporting standards, we believe that the creation of sustainability reporting standards will be a reasonable extension of the IFRS Foundation's current remit.

We anticipate that having an IFRS Foundation led creation of such standards will result in greater certainty, and will benefit from the IFRS Foundation's experience in developing financial reporting standards. We consider that an appropriately flexible framework which considers relevant factors such as region, market sector and size, will enable the IFRS Foundation's sustainability standards will achieve greater compliance among issuers.

Q2. Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?

Yes

We support the establishment of an SSB to work in co-ordination with the IFRS Foundation in developing a consistent, global approach for sustainability reporting. We believe that given the IFRS Foundation's experience in setting global accounting standards, that it would be best equipped to create and manage the SSB. Sustainability reporting requires significant consideration of various complex issues and we believe that the creation of a specialised body such as the SSB as proposed by the IFRS Foundation would be a suitable measure to ensure the development of appropriate standards.

We are also encouraged by the suggestion that the SSB's mandate should include building upon current existing initiatives to create a clear and consolidated sustainability reporting standards framework. The matters included in existing sustainability reporting methods such as TCFD, Global Reporting Initiative and Integrated Reporting have proven to be sufficiently comprehensive for our issuers. We would be interested in seeing global/regional sustainability standards being built upon these existing methods, instead of the creation of entirely new standards, as this will likely reduce the compliance burden on issuers and enable the most efficient development of a robust global sustainability reporting framework.

Q3. Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?

No

We support and encourage the requirements for success determined by the IFRS Foundation. In particular, we support the IFRS Foundation's aim of working with regional initiatives to achieve global consistency and reduce complexity in sustainable reporting. We believe that consideration of regional economic and regulatory matters, and the existing reporting frameworks, should be a key part of the IFRS Foundation's process for developing sustainability standards. This will allow sustainability standards to be developed that preserve comparability while being sensitive to regional commercial and environmental needs. The development of an appropriate framework should ultimately create greater compliance and adherence amongst issuers, resulting in positive ESG effects.

Q4. Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?

Yes

We refer to our reply to Question 3. We encourage the IFRS Foundation to use the relationships it has developed with key stakeholders in various market sector industries and regions, to identify their fundamental requirements and needs for sustainability reporting. We support the SASB's submission and its emphasis on the consideration of quantitative, industry-specific metrics in the development of sustainability reporting standards. We expect that the inclusion of industry-specific metrics would require the IFRS Foundation to consult industry-representative stakeholders and address their concerns, to ensure the creation of a framework that enables a progression towards a more environmentally sustainable future.

Q5. How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?

and

Q6. How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?

We remain guided by the views of the appropriate authorities and stakeholders who have the necessary expertise to comment on creating consolidated sustainability reporting standards.

We suggest that the IFRS Foundation consult existing bodies when creating its sustainability reporting standards. Existing initiatives are generally applied regionally and consideration of such initiatives should inform the IFRS Foundation as to the development of an appropriate level of flexibility within the standards framework to address regional and market sector specific concerns. Similarly, we also suggest that the IFRS Foundation consults organisations that are representative of major industry sectors, to enable the IFRS Foundation's sustainability standards to cater for specific market sector needs and to leverage existing practices.

Q7. If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?

Yes

In 2020, we have seen a growing initiative among our New Zealand issuers towards climate change impact reporting. Although the New Zealand government is set to mandate TCFD reporting from the 2022/2023 reporting period onwards (implementation date to be finalised)¹, the growth in ESG reporting based on existing methodologies this year has been largely voluntary. This has resulted in reports ranging in formats and providing varying degrees of completeness of both climate change and other ESG matters. As climate change-reporting has been the key motivator behind sustainability reporting, we support climate-related financial disclosures as being the first priority for the IFRS Foundation with the adoption of additional standards as soon as practicable in relation to other ESG matters.

Q8. Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?

We remain guided by the views of the appropriate authorities and stakeholders who have the necessary expertise to comment on creating consolidated sustainability reporting standards.

Q9. Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?

Yes

We agree with the SSB adopting an incremental application of sustainability reporting standards. This will enable relevant authorities to gradually shift their current reporting requirements and recognise the compliance burden of additional reporting for reporting entities.

Q10. Should the sustainability information to be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?

Yes

As New Zealand does not currently have assurance standards in relation to its ESG reporting, we remain guided by the views of appropriate stakeholders who have the

¹ <https://www.mfe.govt.nz/climate-change/climate-change-and-government/mandatory-climate-related-financial-disclosures>

expertise to comment on external assurances. However, we support the notion that sustainability information should be auditable. As sustainability information is likely to be increasingly relied upon by institutional and retail investors in the context of their investment decisions, we believe that such information should be auditable and subject to an adequate review process to ensure that it is appropriate for investors to reasonably rely upon it when making investment decisions.

Q11. Stakeholders are welcome to raise any other comment or relevant matters for our consideration.

We have no further recommendations

Closing comments

We support the IFRS Foundation's proposal to create an SSB and to prioritise the development of global climate-change reporting standards. We suggest the IFRS Foundation consults relevant professional associations and regulatory bodies both in a regional and sector specific context. This will enable the IFRS Foundation to create sustainability reporting standards that enhance comparability in sustainability reporting, while providing sufficient flexibility for the needs of different reporting entities.

We thank the IFRS Foundation for this opportunity to submit on these proposals. We would welcome the opportunity to meet with you to discuss any aspect of this submission.

Yours faithfully,



Kristin Brandon
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NZX Limited