

# Legislative statement: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill – First Reading

## Overview

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (**the Bill**) is an omnibus Bill that amends the Financial Markets Conduct Act 2013 (**FMC Act**), the Financial Reporting Act (**FR Act**) 2013 and the Public Audit Act 2001.

The Bill introduces a mandatory climate-related disclosure regime for specified FMC reporting entities under the FMC Act (**climate reporting entities**), including most debt and equity issuers listed on the NZX. It will also apply to large registered banks, non-deposit takers, licensed insurers, and registered investment scheme managers. The Bill will require these entities to make climate-related disclosures on their climate risks and opportunities, and report on how these affect their business.

The policy of the Bill is consistent with the Government's decision in December 2020 to declare a climate emergency. The Bill will help smooth the transition to a more sustainable low-emissions economy by:

- Increasing efficiency and effectiveness of financial markets by moving to a position where the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions
- Helping reporting entities better demonstrate responsibility and foresight in their consideration of climate issues
- Reducing financial stability risks because inadequate information about climate risks can lead to the mispricing of assets and misallocation of capital, and markets can be vulnerable to abrupt corrections.

Introducing a climate-related disclosure regime reflects concerns that, although most large businesses face significant climate-related risks, many are not aware of the impact climate change has on their businesses, strategies and financial position. In addition, entities that have started preparing climate reports are providing information that is incomplete or of limited use.

The aims of the Bill are to:

- Rapidly accelerate progress by making it mandatory for around 200 of the largest and most important businesses participating in New Zealand financial markets to make climate-related disclosures
- Improve the usefulness of climate reports by requiring disclosures to be clear, comparable and consistent through standards issued by the External Reporting Board (**XRB**).

The Financial Markets Authority (FMA) will be responsible for monitoring, reporting and enforcement under its existing powers to promote high quality disclosures. The Bill also provides for the XRB to issue guidance on non-financial reporting that can be applied voluntarily by reporting entities.

### **Requiring climate reporting entities to prepare climate-related disclosures**

Part 7 of the FMC Act requires FMC reporting entities to prepare and publish financial statements in accordance with generally accepted accounting practice. The Bill adds a new Part 7A to the FMC Act, which will provide for approximately 200 FMC reporting entities to also be climate reporting entities. Entities included in the regime will be required to prepare climate statements in accordance with climate standards issued by the XRB, to obtain an assurance engagement in relation to their greenhouse gas (GHG) emissions disclosures, publish those statements, and keep CRD records.

### **Enabling the XRB to prepare and issue climate-related reporting standards**

The Bill provides for the XRB to issue climate-related reporting standards by amending the FR Act. This is an expansion of the XRB's existing functions.

Provisions in the Bill also amend the FR Act to widen the XRB membership qualifications to include people with experience in sustainability (for example, climate change). This reflects the expertise required for the XRB to perform its new responsibilities.

### **The FMA will be the independent regulator for specified FMC reporting entities**

Monitoring and reporting on disclosures and enforcement are essential parts of the Bill. The FMA will be responsible for these functions as the independent regulator using its existing powers under the FMC Act and Financial Markets Authority Act 2011. The FMA will also have the power to approve entities as GHG emissions assurance bodies.

### **Enabling the XRB to issue guidance on non-financial reporting**

The Bill also amends the FR Act to empower the XRB to issue guidance on a wider range of environmental, social and governance and other non-financial matters that can be applied on a voluntary basis.

These provisions will enable preparers to have guidance on best practice non-financial reporting and improve the quality of disclosures on a range of issues beyond the types of information currently presented in financial statements.

### **Commencement**

The changes to the FR Act will come into the force on the day after the date of the Royal assent. The XRB will be able to issue climate standards from this date.

The climate disclosure regime will commence no later than one year after Royal assent. This will provide time for climate reporting entities to set-up systems to collect data for reporting.

The GHG assurance provisions, including the amendments to the Public Audit Act 2001 will commence no later than two years after Royal Assent. This will provide time for the preparatory work required to put the assurance regime in place.