Climate Disclosure Standards Board

Attn: Mr Hamish Macdonald
NZX Head of Policy and Legal

Dear Mr Macdonald,

Response to the consultation paper on the review of the NZX Corporate Governance Code

We welcome the opportunity to respond to your consultation on the proposed changes to NZX's Corporate Governance Code and Listing Rule. We would like to first express our strong support for the key objectives you have identified to promote time-efficient delivery of quality information by listed issuers to help investors make informed decisions while also balancing the costs and challenges of disclosure for issuers.

The Climate Disclosure Standards Board (CDSB) is a consortium of business and environmental organisations, formed at the World Economic Forum in 2007. We are an international organisation committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information with the same rigour as financial information in mainstream reports, such as the annual report.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems. The *CDSB Framework for reporting environmental information*[1] helps issuers fulfil the "environmental" section of ESG reporting by providing guidance on reporting robust, clear and comparable information to investors.

Our specific and general comments on the consultation follow in the appendix below. Please do not hesitate to contact us if you have any further queries.

Kind regards,

Michael Zimonyi
Policy & External Affairs Manager
Climate Disclosure Standards Board

[1] CDSB (2015) *CDSB Framework for reporting environmental information & natural capital*. Available at http://www.cdsb.net/Framework

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Appendix – Consultation response

Statement of interest

CDSB's interest in the consultation stands from our mission to advance and align the global mainstream corporate reporting model to equate natural capital with financial capital.

In addition, CDSB has published proposed corporate climate change reporting requirements for implementation by stock exchanges[2]. Following this work, we have been actively engaging with exchanges globally on the implementation of voluntary and mandatory environmental reporting requirements. As part of this, CDSB has been working with the UN Sustainable Stock Exchanges Initiative by contributing to its Model Guidance on Reporting ESG Information to Investors[3] and through its regional dialogues.

Due to our area of expertise, all of our comments relate to the reporting of environmental information only.

Overall comments

1. **Alignment with financial information:** The benefits to issuers and investors of integrating sustainability information into their annual report have been well documented[4,5]. We therefore commend and support the Exchange's efforts to align the reporting of financial and sustainability information through its provision to report ESG information in annual reports. We believe that this attention to detail will result in information that is more suited to investor decision-making. We therefore warn about the downsides of providing the option to report such information separately on the company's website.

2. **Investor audience:** We encourage the Exchange to specify that the primary audience of ESG reporting as part of these provisions is the investor, although such information may satisfy the needs of other stakeholders, in order to help issuers ensure that their reporting is prepared with this audience in mind.

3. **Cooperation:** We encourage NZX to join the UN Sustainable Stock Exchanges Initiative and the World Federation of Exchanges Sustainability Working Group to be a part of shaping the global dialogue on the advancement and alignment of ESG matters through exchanges on a global level.

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[2] Climate Disclosure Standards Board (2014) *Climate resilient stock markets*. Available at http://cdsb.net/markets

[3] UN Sustainable Stock Exchanges Initiative (2015) *Model Guidance on Reporting ESG Information to Investors: A Voluntary Tool For Stock Exchanges to Guide Issuers*. Available at http://www.sseinitiative.org/wp-content/uploads/2015/10/SSE-Model-Guidance-on-Reporting-ESG.pdf

[4] More than 90% of investors polled believe it would be valuable for companies to combine nancial and non- financial information into an integrated reporting model. Source: ACCA (2013) *Understanding investors: directions for corporate reporting*. Available at http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/pol-afb-ui02.pdf

[5] International Integrated Reporting Council (2015) *Integrated Reporting and investor benefits*. Available at http://integratedreporting.org/wp-content/uploads/2016/01/1323_CreatingValue_No3_8a-1.pdf

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Specific comments

Principle 4 – Reporting and disclosure

1. Do you agree with the proposed recommendations?

When developing provisions for corporate reporting, the most significant challenge is to ensure that they are feasible for issuers, while they still meet the needs of data users, such as investors. We therefore commend the exchange for highlighting that information should be accurate and timely in its consultation paper.

We do not however agree with the provision to allow such information to be placed outside the annual report, on the company's website **alone**. This additional location for reporting hinders the accessibility of such information because it creates an additional barrier to accessing it. Information reported separately may also result in inconsistency and lack of comparability if the structure and content of the report is not in line with the annual report. However, reporting material ESG information in the annual report and providing references to further information on the company's website can be a good way to reduce the length of annual reports.

A fundamental point we wish to raise is that much of the information to be reported have financial consequences over the short, medium or long-term. Therefore, if the Exchange concludes that certain information can be reported in a separate location, we recommend that this is subject to the overriding condition that the financial consequences of the separately reported information are referenced in the annual report, whether or not those consequences are reflected in the financial statements.

We recommend that in considering how to proceed, NZX:

a. Considers the context of the annual report. In particular, those documents form part of a wider package of information and the location of information should be considered in the context of that whole package, rather than in isolation. The UK Financial Reporting Council's report on "Thinking About Disclosures in a Broader Context[6]" provides useful commentary here.
b. Consults the IASB's Disclosure Initiative[7]. For example, an IASB staff paper[8] considered the use of cross-referencing in financial reporting where information is spread across multiple locations. The staff paper warns that the use of cross referencing can impair the understandability of information when multi-level or extended linking happens (i.e.: linking from one document to another and then another), or where too many cross-references are used. This can lead to scattered and hidden information. The staff paper also provides examples of the circumstances in which cross-referencing may be used including:
    - Duplication of information that already has to be provided in other statements or documents for the same reporting period;
    - Duplication of "static" or standard information that does not change year on year such as lists of information about subsidiaries or policies;
    - To reduce complexity;
    - Information that the reporting entity does not regard as material but whose complete omission would need to be justified to one or more stakeholder group. On this particular point, we are opposed to information being reported in other locations (outside the management/annual

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[6] FRC (2012) Discussion Paper: Thinking about disclosures in a broader context: A road map for a disclosure framework [Online]. Available from: https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Thinking-about-disclosures-in-a-broader-contex.aspx

[7] IFRS Foundation (2015) Principles of disclosure [Online]. Available from: http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Principles-of-Disclosure/Pages/Discussion-and-papers-stage-2.aspx

[8] IASB Staff Paper 30 June 2014 – Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting on "Placement of information – cross referencing" [PDF]. Available from: http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2014/June/AP3B%20Joint%20CMAC-GPF%20June%202014%20DI%20-%20pod%20-%20cross-references.pdf

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report) on the grounds that it may or may not be material to one or more stakeholder group. We recommend that concerns about materiality should be addressed directly in the wider implementation plans for NFR requirements rather than being dealt with by re-locating information that presents materiality dilemmas for the reporting entity.

c. Consults the "characteristics of decision-useful information" in the IASB's Conceptual Framework. How would the split of information across multiple locations affect the principles of completeness and understandabilty?

d. Considers the implications of presenting information across different channels for assurance purposes[9];

e. Considers the implications of presenting information across different channels for communication purposes – can the company really tell its "story" in fragmented disclosures?

2. Do you agree with the proposal to address ESG reporting within commentary?
We are concerned that the lack of specificity on the *Recommendations* level may result in confusion by the market and information that is not consistent or comparable and thus not fit for investor use. The trend by other exchanges and regulators is to produce high level content requirements to provide flexibility, which are then explained in voluntary guidance and supported by references to common reporting provisions. The UK's environmental reporting requirements through its Companies Act has adopted a similar approach and our review[10] of companies' compliance with these has shown a positive outcome.

3. Do you agree NZX should develop its own ESG reporting guidance based on the SSEI's model guidance or alternatively allow for issuers to use the GRI framework?

We suggest that the Exchange should use the SSEI's guidance to develop its own guidance and rely on other bodies including CDP, GRI, CDSB and the International Integrated Reporting Council to prepare content and standards to elicit information according to criteria specified in the guidance. By referencing the work of these bodies, the Exchange can develop high-level requirements and ensure that it refers to content requirements that are kept up to date as this field develops.

Having high-level requirements encourages the development of some common data points across organisations and reduces uncertainty for business on what to report.

4. Do you think another framework should be used instead?
While the guidelines developed by GRI are widely used, a significant number of companies in New Zealand and globally also use the CDP (formerly carbon disclosure project) information request to report to their issuers. As such, we recommend including a reference to the CDP information request as well.

Both of these provisions provide a good basis on **what** to report, but they do not provide guidance on **how** to report in the context of the annual report, which is one of the channels for reporting which are proposed by the consultation document. The CDSB Framework for reporting environmental information[11] is designed for this purpose and is compatible with both the GRI guidelines and the CDP information request. For this reason, we

[9] See for example, IAASB's Discussion Paper January 2011 – The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications [PDF]. Available from: https://www.ifac.org/system/files/publications/exposure-drafts/IAASB-Disclosures_Discussion_Paper.pdf
[10] CDSB (2015) *Comply or explain: A review of FTSE 350 companies' environmental reporting in annual reports*. Available at http://www.cdsb.net/FTSE
[11] CDSB (2015) *CDSB Framework for reporting environmental information & natural capital*. Available at http://www.cdsb.net/Framework

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suggest that it is included in the commentary to the recommendations, in the hope that it will be of use to issuers who will report environmental information in their annual report.

5. Do you agree that issuers should make key governance documents available to interested investors and stakeholders?
We have no views on this matter.

Principle 6: Risk management

ESG reporting
It is important to ensure that information reported by companies takes into account the needs of their audience. Given that such matters may directly impact the future performance and financial position of a company, we strongly feel that ESG matters are financially material to understanding a company's performance on the medium to long term and as such form part of its financial reporting.

Principle 7: Auditors

We suggest that the exchange provides resources to issuers on the assurance of ESG information, in order to build capacity in this area. Standards such as ISAE 3000 and ISAE 3410 may improve the quality of, and trust in the reported information.

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