

JUNE 2023

Climate-related Disclosures Monitoring Plan 2023-2026

Overview

The Climate-related Disclosures regime

The New Zealand Government has introduced a new regime making climate-related disclosures (CRD) mandatory for certain large Financial Markets Conduct (FMC) reporting entities (known as Climate Reporting Entities or CREs) under Part 7A of the Financial Markets Conduct Act 2013 (FMC Act).

The purpose of the climate standards, as set out in the Financial Reporting Act¹, is to provide for, or promote, climate-related disclosures, in order to:

- encourage entities to routinely consider the short-, medium-, and long-term risks and opportunities that climate change presents for the activities of the entity or the entity's group; and
- enable entities to show how they are considering those risks and opportunities; and
- enable investors and other stakeholders to assess the merits of how entities are considering those risks and opportunities.

By providing investors and other stakeholders with publicly available climate-related disclosures that can be relied on, the market will be able to make more informed decisions around where to allocate capital and contribute to the overall aim of the Aotearoa New Zealand Climate standards framework – 'supporting the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future'.

Requirements for CREs

Under the legislation, CREs are required to:

- comply with record keeping obligations;

¹ Financial Reporting Act 2013 No 101 (as at 27 October 2022), Public Act Climate standards – New Zealand Legislation

- prepare climate statements in accordance with the reporting standard requirements set out in the Aotearoa New Zealand Climate Standards² (collectively referred to as the ‘CRD framework’);
- prepare annual climate statements that disclose information about the effects of climate change on their business or any fund they manage;
- obtain independent assurance about the part of the climate statements that relates to the disclosure of greenhouse gas (GHG) emissions for reporting years beginning on or after 27 October 2024³; and
- make the climate statements available to the public.

The FMA’s role

The main statutory objective of the Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) is to promote and facilitate the development of fair, efficient and transparent financial markets. The FMA is responsible for independent monitoring and enforcement of the CRD regime under the FMC Act.

The FMA’s general regulatory approach to monitoring is available on our [website](#).

Purpose of this plan

This plan provides a summary of our approach to monitoring the compliance of CREs with the legislative requirements under Part 7A of the FMC Act and reporting obligations under the CRD framework. It is primarily intended for CREs, their directors and other authorised bodies. Other parties, such as assurance practitioners, may also be interested in this document.

From ‘build’ to ‘operate’

In the first years of the CRD regime we are taking a broadly educative and constructive approach, with an initial focus on issuing high-level guidance on compliance expectations, and moving to a more proactive regulatory role as the regime becomes established.

Any enforcement action will be considered on a case-by-case basis (the FMA’s standard approach) in accordance with our Regulatory Response Guidelines⁴ (and any other relevant published documents).

We expect a high degree of public interest in climate statements, meaning it is likely we will also need to respond to a high volume of enquiries and complaints.

We anticipate that our monitoring approach will evolve through the following stages:

² Aotearoa New Zealand Climate Standard 1 (NZ CS 1), Aotearoa New Zealand Climate Standard 2 – Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2), and Aotearoa New Zealand Climate Standard 3 – General Requirements for Climate-Related Disclosures (NZ CS 3).

³ The assurance obligation will come into force by the third anniversary of Royal Assent of the Climate-related Disclosures Amendment Act 2021 unless introduced earlier by the Order in Council.

⁴ For further information see FMA’s [Regulatory Response Guidelines](#).

Year 1: Setting initial compliance expectations – reporting periods commencing in 2023

The first climate statements will be lodged by CREs from early 2024. We will review as many climate statements as possible to understand whether CREs have complied with their CRD regime obligations. We have set out our initial focus areas for the first year of reporting in the following section (see page 3). We expect these focus areas to evolve over time.

We will provide timely feedback to support improvement and encourage the development of good practice. We will continue to engage with CREs and key stakeholders, and issue monitoring reports, guidance and information sheets as required.

Year 2: Supporting development of best practice – reporting periods commencing in 2024

We will incorporate three additional areas into our reviews of climate statements in CREs' second year of reporting. These include assessing whether CREs have:

- obtained independent assurance over their GHG emission disclosures for reporting years beginning on or after 27 October 2024⁵;
- improved on their first-year reporting based on areas covered in our monitoring reports and any individual feedback provided to them; and
- made reasonable efforts to comply with all additional disclosure requirements, noting that the first-time adoption provisions under NZ CS 2, which will no longer be available to CREs in their second reporting year⁶.

We will continue to review as many climate statements as possible and provide feedback to support better practice.

Year 3: Steady state guidance, monitoring and enforcement – reporting years commencing in 2025

We aim to settle into a 'steady state' level of monitoring by the third year of the regime. We will carry out proactive risk-based sampling and more detailed review procedures, including regularly examining the underlying records that support climate statements. We will also look at whether CREs have consistently improved their reporting, including incorporating feedback that is provided both in our monitoring reports and to them individually.

Areas of focus for CREs' first year of reporting

We will carry out reviews of climate statements to identify issues in relation to compliance with the legislative requirements. For CREs' first year of reporting, we will focus on the following five areas to assess whether climate statements:

⁵ The assurance obligation will come into force by the third anniversary of Royal Assent of the Climate-related Disclosures Amendment Act 2021 unless introduced earlier by the Order in Council.

⁶ With the exception of adoption provisions stated in NZ CS 2 paragraphs 18 and 21 in respect of disclosures of second period comparative information.

1. Have been filed within the legislative timeframe

CREs must lodge their climate statements with the Companies Office within four months of their balance date⁷. We will work closely with the Registrar to identify whether regulated entities are complying within the legislative timeframe. Where CREs have not met this requirement, we will consider the most appropriate next steps depending on the nature and extent of the non-compliance, including taking regulatory action if required.

The preparation of climate statements may have dependencies on other stakeholders. CREs should engage early with these stakeholders to fully outline and understand expectations, requirements, and timelines. Key stakeholders could include:

- Audit & Risk Committee and/or board;
- executive management;
- sustainability, strategy or regulatory teams (or equivalent);
- finance and legal teams;
- key operational managers;
- assurance providers; and
- external experts.

CREs should prepare a detailed planning timetable that is agreed with all stakeholders, to ensure key dependencies are effectively managed and high-quality climate statements can be produced within the required timeframes.

CREs should engage with the FMA in a proactive and timely manner if they encounter difficulties that may affect their ability to lodge their climate statements by the filing deadline.

2. Have been filed for the correct legal entity

CREs are defined as listed issuers, registered banks, licensed insurers, credit unions, building societies, and managed investment schemes that meet the thresholds under Part 7A of the FMC Act.

Where multiple entities within a group qualify as a CRE, this may result in each entity being required to prepare separate climate statements.

We will assess whether all CREs have filed their climate statements for all entities captured under the legislation. We recommend CREs seek legal advice in cases where their organisational structures are particularly complex.

We have published a [CRE FAQ factsheet](#) that sets out the definitions and thresholds for entities to qualify as a CRE.

3. Meet the disclosure requirements

We will assess whether climate statements meet the requirements of the CRD framework and contain all the required disclosures. If CREs cannot meet any of the disclosure requirements, they must disclose this in

⁷ Where a CRE proposes to publish its annual report before the four-month deadline, this triggers a requirement to file the climate statements before or at the same time as the annual report is published.

their climate statements. Where we identify mandatory disclosures that do not comply with the CRD framework or have been omitted, we may review the CRE's supporting records to understand why, and whether the CRE has made their best efforts to consider the framework and comply accordingly. As part of our reviews we may then also assess:

- if the CRE appropriately disclosed any omissions in their climate statements;
- how early the CRE started preparing their climate statements;
- the nature and extent of missing data and/or information;
- the CRE's plan for addressing any reporting, information or capability gaps;
- how the CRE prioritised its actions in preparing its climate statements, e.g. when the CRE identified its most material GHG emissions sources, and then prioritised the associated data and reporting; and
- how the CRE considered materiality in their approach.

We will reflect on the nature and extent of any non-compliance or omissions in considering the most appropriate next steps, including regulatory action if required.

There are first-time adoption provisions in NZ CS 2 (Adoption of Aotearoa NZ Climate Standards) that create an option for CREs to opt out of certain disclosure requirements in their first year of reporting. This is to recognise that it may take time to develop the capability to produce these parts of the climate statements. Therefore, CREs should ensure they assess the NZ CS 2 requirements as early as possible and use the time extension to ensure they can prove they made best efforts to comply with the requirements in their second year of reporting.

4. Are transparent and provide context

We will assess whether climate statements are transparent and provide context. In particular, we will focus on whether climate statements:

- define and explain terminology and phrases;
- use narratives that distinguish between actual performance and aspirational performance; and
- provide additional contextual information where required.

We will consider whether disclosures relating to the quality and nature of underlying information are transparent, as these are essential for users to understand climate statements. We emphasise the importance of the disclosures relating to:

- the quality of underlying data, including the associated uncertainties, limitations and/or reporting gaps; and
- areas of complexity, including estimations, models, uncertainties, or judgements.

We will also consider whether climate statements provide sufficient context to accurately reflect the underlying information and the individual circumstances of the CRE, and may ask for additional information when disclosures are unclear.

5. Are internally and externally consistent

We will review whether the information disclosed in climate statements is consistent, specifically:

- consistency of information within the climate statements (i.e. internal consistency). For example, whether statements and descriptions in a CRE's disclosures are aligned and consistent across all required governance, strategy, risk management, and metrics and targets disclosures⁸.
- consistency of information across climate statements and any other documents or statements a CRE publishes (i.e. external consistency). This could include financial statements, market announcements, annual reports, other sustainability reporting, public statements, and websites. If we notice any inconsistencies or contradictory messages that may be in breach of other laws or regulations, we will share this information with the applicable Government agency.

Education and communication

Our initial communication to CREs will be aligned with our broadly educative and constructive approach, supporting and encouraging the development of good practice.

We may communicate with CREs during our climate statement reviews. In most cases we expect the purpose of these enquiries will be to better understand their disclosures, rather than investigating non-compliance. During this communication we expect CREs to:

- engage constructively with us; and
- have records readily available that support the calculations, decisions and assumptions underlying their climate statements (if required).

Initially, the outcomes of our climate statement reviews will usually be communicated:

- in most cases, through emails or verbal discussions;
- for more substantial matters related to non-compliance, through non-statutory tools such as formal feedback letters or compliance warning letters;
- in annual monitoring reports that summarise our overall findings on an anonymised basis; and
- in additional ad hoc publications such as information sheets, thematic reports and guidance notes that summarise our findings, and set expectations and principles.

Additionally, we may use any of our regulatory tools⁹ (both formal statutory and informal non-statutory) in accordance with our regulatory response guidelines to achieve our regulatory objectives.

We will continue to engage with stakeholders and regulators, and share our findings to help improve awareness of and compliance with the CRD regime, including:

- participating in local and international professional and industry forums;

⁸ Key areas within NZ CS 1.

⁹ See our [Regulatory Response Guidelines](#).

- working with local regulatory bodies and Government agencies such as the Companies Office, the Reserve Bank of New Zealand, the Commerce Commission, the Council of Financial Regulators, and the Ministry of Business, Innovation & Employment;
- liaising with international regulatory bodies and organisations such as the Australian Securities and Investments Commission (ASIC) and the International Organisation of Securities Commissions (IOSCO); and
- collaborating with the External Reporting Board (XRB) on mutual areas of interest.

We recommend CREs refer to the FMA website regularly for updated communications and guidance.

For any specific compliance-related matters, please seek legal or professional advice in the first instance. If still unresolved, please direct any further questions to climaterelateddisclosures@fma.govt.nz.

We note that while we cannot provide advice about a CRE's specific circumstances, we will endeavour to clarify any points related to our intended monitoring approach.