

# New Zealand Equity Monthly November 2021

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## COP26 pledges set to bring impacts and opportunities to companies

The 2021 United Nations Climate Change Conference (COP26) concluded in Glasgow on 13 November 2021 with a number of key implications for businesses. Although the COP26's statement on phasing out coal was moderately worded, the statement itself was significant in marking the first time the conference has mentioned coal in writing. COP26 also included a pledge by New Zealand and 100 other countries to achieve 30% cuts in methane emissions by 2030. This is also a key development given the size of the promised reduction and the shortness of the nine-year timeframe. New Zealand will meet two thirds of its overall pledged emissions cuts by purchasing carbon credits through offshore mitigation, in which credits for emissions reductions or trading scheme allowances are purchased from overseas. Given that the carbon price in New Zealand's Emissions Trading Scheme is currently around NZD 65 per tonne after increasing rapidly over the years, the cost of reducing carbon and buying credits looks set to filter through to businesses and increase operating costs for many of the country's carbon-intensive companies. At the same time, the statements and policies from COP26 are also likely to create opportunities for companies that invest in green technologies.

## New Zealand on course to have first climate-related disclosure standard in December 2022

Similar progress is being seen in the area of corporate disclosure as New Zealand is set to have its first climate-related disclosure standard by the end of next year. New Zealand's External Reporting Board (XRB), which normally issues accounting standards, was tasked by the government with issuing standards on climate-related disclosures in September 2020. The standards will cover large issuers with market caps exceeding NZD 60 million and major financial institutions with over NZD 1 billion in assets under management, meaning that about 200 companies will be required to make disclosures. The XRB put the first standard out for consultation in October 2021 and is planning to issue it in December 2022. As disclosures under the standard are likely to be required for accounting periods that start on or after 1 January 2023, we should start seeing climate-related disclosures in New Zealand by 2024. Disclosures will be principles-based rather than rules-based, so companies will be able to adapt the standard according to their industry. The XRB has signalled that it is open to feedback and has been responsive in helping companies to navigate the new requirements.

## Other ESG-related developments on the horizon

In addition to COP26 and New Zealand's new disclosure standards, a number of Environmental, Social and Governance (ESG)-related regulations are also on the horizon. Firms around the world are preparing for the European Union's (EU) Sustainable Finance Disclosure Regulation (SFDR) for the provision of investment-related sustainability information as well as its taxonomy for classifying economic activities based on their environmental impacts. Closer to home, the New Zealand government is currently developing its Modern Slavery Act for the prevention of human trafficking and forced labour. The EU is also planning a carbon border tax on imports of carbon-intensive products. We will continue to monitor how these developments affect companies.

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