

Submission on Consultation document - Assurance over climate-related disclosures: occupational regulation and expanding the scope of assurance

Your name and organisation

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Responses to consultation document questions

Objective	
1.	Do you agree that we have set the right objective for considering Issues 1 and 2?
	We agree.
Occupational licensing for CRD assurance practitioners	
2.	Have we described the status quo and problem definition correctly? If not, why not?
	Yes, the status quo and problem definition are correctly described.
3.	Do you have any comments about how we have described the co-regulatory model under the Auditor Regulation Act?
	No comment.
4.	If co-regulation is the preferred option should we depart from any of the Auditor Regulation Act requirements? If so, which ones and why?
	<p>As noted in our response to Q5 below, we support direct regulation as the preferred option.</p> <p>However, if co-regulation is pursued as the preferred option, MBIE should not depart from any of the Auditor Regulation Act requirements, especially the requirements for accreditation of professional bodies. The current requirements, as they apply to the auditor licensing regime, has a high level of in-built rigour that has been designed to ultimately protect market integrity. A different level of rigour for a proposed new co-regulatory regime may send the wrong message to the market of having two 'levels' of rigor applied to the respective licensing regimes applicable to auditors and to CRD assurance practitioners. We believe this has the potential to undermine market confidence in the regulatory regime and therefore recommend not departing from any of the current Auditor Regulation Act requirements.</p> <p>We recommend that the Auditor Regulation Act (ARA) be reviewed and amended prior to incorporating the CRD assurance practitioner regime to allow flexibility for future expansion of broader sustainability information. Given the expected expanded scope of sustainability reporting and broader Environmental, Social and Governance (ESG) reporting and associated assurance requirements, we believe consideration should be given to ensuring the ARA can be future-proofed for emerging ESG reporting requirements and the associated licensing regime(s) and regulatory oversight functions.</p>
5.	If direct regulation is the preferred option do you agree that the FMA should be the regulator? If not, why not and who else should it be?
	We support direct regulation as the preferred option and agree that the FMA should carry out all licensing and regulatory functions, for the same reasons as discussed in the Consultation Document.
6.	Do you agree that the hybrid model is not viable? Why/why not?
	We agree that the hybrid model is not a suitable option for the same reasons as discussed in the Consultation Document.

7.	Do you agree with our proposal that the FMA will set the minimum standards for CRD assurance practitioners? Why/why not?
	We agree. However, it is important that the same set of minimum standards of regulatory oversight be applied to both licensed auditors and the CRD assurance practitioners. As previously discussed in question 4, to achieve the primary objective of enhancing the trust and confidence of the market, it is critical that the same minimum standards are applied to both licensed auditors and CRD assurance practitioners to avoid any unintended consequences of inconsistencies in the licensing and regulatory approach and the perception of differing 'levels' of rigor being applied.
8.	Do you agree that we should only regulate the CRD assurance practitioner who takes overall responsibility for the assurance engagement? Why/why not?
	We agree. This approach is also consistent with the approach set out in the XRB's <i>Explanatory Guide Framework for Assurance Engagements</i> , which is discussed in the Consultation Document.
9.	Have we considered the best options (continuing with the status quo, co-regulation and direct regulation) to assess? If not, what other options should we consider?
	Yes, we believe all the best options have been considered.
10.	Do you agree with the criteria we are using to assess the options? Do you consider that the effectiveness criterion should have the most weight or should they all have equal weight?
	We agree with the criteria used in assessing the options. We agree that the effectiveness criterion should be the most important and relevant in achieving the objective of enhancing the trust and confidence users place in the information disclosed in climate statements. Therefore, this criterion should have the most weight of all the other criterion listed in the Consultation Document.
11.	What level of trust and confidence do you think users will have in the climate statements under the status quo?
	It is reasonable to assume that the users' level of trust and confidence under the status quo, which is an unregulated/unlicensed market, will be much lower than a regulated/licenced market. However, we are unable to quantify the differences in the level of trust and confidence between the status quo and proposed regulatory models (co-regulation and direct regulation models).
12.	Do you agree with our assessment of the effectiveness criterion? If not, why not?
	We agree.
13.	Do you agree with our analysis of the flexibility criterion? If not, why not?
	We agree.
14.	Do you agree with our analysis of the competitive neutrality criterion? If not, why not?

	<p>We agree, in general, with the analysis of the competitive neutrality criterion between the co-regulation and direct regulation models. However, we are unclear about the statement that the cost to practitioners would be cheaper under the direct regulation model than the distributed costs of gaining accreditation under a co-regulatory model. This is because the Consultation Document does not discuss the criteria and the associated estimated costs for CRD assurance practitioners to obtain a licence under either model.</p>
15.	<p>Do you have any information about set-up and ongoing costs for new professional bodies to obtain the regulatory infrastructure required by the Auditor Regulation Act?</p>
	<p>No comment.</p>
16.	<p>Do you agree that new professional bodies will incur much higher costs than professional bodies already accredited under the Auditor Regulation Act to become accredited under a new co-regulatory model for CRD assurance practitioners?</p>
	<p>In general, it is reasonable to assume that new professional bodies will incur higher costs than professional bodies already accredited under the Auditor Regulation Act. However, we are not certain if the expected costs to new professional bodies will be much higher or just slightly higher as compared to professional bodies already accredited under the Auditor Regulation Act, if the co-regulatory model is adopted.</p> <p>For professional bodies already accredited under the Auditor Regulation Act (CPA Australia and NZICA), we anticipate additional regulatory costs will arise. Although there will be synergies with the existing policies and procedures relating to quality review, monitoring, regulating ongoing competence requirements, investigating complaints and taking disciplinary action where required, the existing regulating policies and procedures may not be fit for purpose for co-regulating CRD assurance practitioners. For example, the accredited bodies will require additional resources and staff members with suitable experience and subject matter knowledge in CRD to be effective in fulfilling their role as a co-regulator under the new CRD regime.</p> <p>For new professional bodies that may pursue accredited status, we expect the costs to vary depending on their existing framework, governance, policies and procedures already in place and their readiness to comply with the requirements in obtaining the accreditation under a co-regulatory model.</p>
17.	<p>Do you agree with our analysis of the efficiency criterion? If not, why not?</p>
	<p>We agree.</p>
18.	<p>Do you agree with our assessment of the three options? If not, why not?</p>
	<p>We agree.</p>
19.	<p>Which option do you prefer and why?</p>
	<p>We prefer and support <i>Option 3: Direct regulation by the FMA</i> for the same reasons articulated in the Consultation Document and as noted previously in our above responses. We believe this option is the most effective and efficient way to achieve the key objectives of the CRD regime as set out in the Consultation Document.</p>

Expanding the scope of assurance	
20.	Have we described the status quo and problem definition correctly? If not, why not?
	Yes, the status quo and problem definition are correctly described.
21.	Do you have any suggestions for non-regulatory options government should support?
	No comment as we do not support non-regulatory options.
22.	What comments do you have on the proposal to require full assurance of the climate statement for accounting periods ending on or after October 2028?
	We support the timeframe of requiring full assurance of the climate statement for accounting periods ending on or after October 2028.
23.	Do you agree with the criteria we are using to assess the options? Do you consider that the effectiveness criterion should have the most weight or should they all have equal weight?
	We agree with the criteria used in assessing the options and as noted above in our response to Q10, we consider the effectiveness criterion should have the most weight.
24.	What level of trust and confidence do you think users will have in the climate statements under the status quo?
	No comment.
25.	Do you agree with our assessment of the effectiveness criterion? If not, why not?
	We agree.
26.	Do you agree with our analysis of the flexibility criterion? If not, why not?
	We agree.
27.	Do you have any estimates of cost for obtaining full assurance over a Task Force on Climate-related Financial Disclosures based report?
	No comment.
28.	Do you have any estimates of cost for obtaining assurance over GHG emissions only?
	No comment.
29.	Do you agree with our analysis of the efficiency criterion? If not, why not?
	We agree.
30.	Do you have any comments on potential cost impacts of the preferred option and who would be impacted?
	We agree that extending the assurance requirement beyond the mandatory assurance over GHG emissions to cover the whole climate statement would result in higher costs for all

	<p>parties involved. However, we are unable to provide the potential cost impacts of the preferred option.</p> <p>We recommend that a cost benefit analysis be undertaken to arrive at a balanced outcome that ensures preparer costs do not outweigh user needs.</p>
31.	<p>Do you agree with our assessment of the four options? If not, why not?</p>
	<p>Please refer to our response to Question 33 below.</p>
32.	<p>Should there be mandatory assurance requirements in relation to the whole climate statement?</p>
	<p>We believe the whole of climate statement should be mandatorily assured.</p>
33.	<p>What are your views about a staggered implementation of assurance requirements prior to assurance in relation to the whole climate statement?</p>
	<p>Rather than a staggered implementation approach (Option 4) we support a slightly modified approach under Option 3 which extends the assurance requirement to cover the whole climate statement from October 2028. The slight modification would involve the XRB continuing to develop and issue assurance standards under the staggered implementation approach, but with an effective implementation date of October 2028.</p> <p>We believe this approach will still provide clarity, certainty and the same lead time for reporting entities and assurance practitioners to prepare for full assurance from October 2028.</p>
34.	<p>Should the XRB be empowered to stagger assurance requirements?</p>
	<p>No comment.</p>
<p>Other Comments</p>	
	<p>We note that the new legislation will be enacted in 2025 and the Occupational Licencing Regime will commence in 2027. The timeline suggests that the New Zealand market will be operating under the status quo between 2025 and 2027, i.e., no occupational licensing for CRD assurance practitioners for the first two years of the mandatory GHG assurance requirement. This gap will impose a significant risk that may undermine the objective to enhance the trust and confidence users place in the information disclosed in the climate statements.</p> <p>We recommend that the new legislation be enacted prior to the first mandatory GHG assurance period for financial year ending October 2024. Given GHG emission information is a subset of the whole of climate statement, enacting the new legislation prior to October 2024 will provide further clarity, alignment, and consistency over the expected minimum standards for all CRD assurance practitioners, including GHG emission assurance practitioners.</p>