



SEPTEMBER 2022

Climate-related disclosures: Initial monitoring approach for record keeping

Contents

Introduction	2
Legislation overview	2
Our approach	3
What does this mean for record keeping?	3
Other relevant guidance and resources	4
Appendix: Record keeping legislation	5

Introduction

This document outlines the FMAs initial monitoring approach to record keeping obligations. Its purpose is to inform and support climate reporting entities (CREs) to meet their statutory reporting requirements.

This monitoring approach document is for climate reporting entities and their directors, auditors, and other interested parties.

It outlines the legislation specific to record keeping and explains the FMA's expectations for compliance with that legislation.

Disclaimer

This document explains the approach the FMA intends to take when monitoring the climate record keeping requirements in Part 7A of the Financial Markets Conduct Act 2013 (FMC Act). It does not constitute legal advice and should not be relied upon as such. We encourage you to seek your own professional advice to find out how the legislation discussed, and any other applicable laws apply to you, as it is your responsibility to determine your obligations. Examples are provided purely for illustration. They are not exhaustive and are not intended to impose or imply particular rules or requirements.

Legislation overview

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act (CRD Act) received Royal assent on 27 October 2021. The CRD Act amends the Financial Markets Conduct Act 2013 (the FMC Act), the Financial Reporting Act 2013 and the Public Audit Act 2001. The CRD Act inserts a new [Part 7A](#) to the FMC Act which provides a framework to require climate reporting entities (CREs) to comply with record-keeping requirements and produce annual climate statements.

Climate statements will be required by a CRE in respect of accounting periods that commence on or after the date the [External Reporting Board \(XRB\)](#) issues the first relevant climate standard.

The XRB is currently expecting to issue the first climate standard by December 2022, which means climate statements will likely be required to be lodged from early 2024 (at the earliest), for accounting periods that start on or after 1 January 2023.

Our approach

Our [Implementation approach](#) states that the FMA envisages taking a broadly educative and constructive approach, with a focus on issuing high-level guidance on compliance expectations in the early stages of the regime. The FMA acknowledges that there is a short lead time for CREs to prepare for this regime.

In the initial stages we expect reasonable efforts to be made in gathering, validating, and recording information to verify the disclosures made, so disclosure is as useful as possible, as early as possible, for its primary users.

We expect to issue more detailed guidance once the regulations have been made, and also over time as the regime evolves, and the quality of data and reporting improves.

What does this mean for record keeping?

The FMA is responsible for independent monitoring and enforcement of the CRD regime, and an integral part of our monitoring will be to inspect the records of CREs climate statements to verify that they comply with the climate-related disclosure framework.

For the majority of CREs, this will be the first time they have been required to consider and document information about climate risks and their greenhouse gases (GHGs). Entities should think about the following information to have an effective process for preparing these disclosures:

- The information that is required
- Where to get that information
- How to analyse it
- How to collect and store it

In line with our Implementation Approach expectations, the FMA will initially focus primarily on serious misconduct. This could include, but is not limited to, situations where CREs fail to produce and retain records, or if those records are incorrect, insufficient, or falsified.

This climate-related reporting regime is novel, and the market has low maturity for data sources and systems for collecting and reporting on climate change impacts. This may result in not all information being available at the start of the regime and entities will have to reflect this in their disclosures.

In the course of the FMA's monitoring reviews, we will review whether CREs have taken reasonable efforts to identify, obtain, understand, report, collect and store appropriate disclosures and records with the information and expertise available. It is our expectation that CRE record keeping should include sufficient documentation that provides objective evidence to support all information disclosed.

It is important that all material information underpinning exclusions, estimates, assumptions, limitations, modelling, and scenario analysis are disclosed in these climate statements and that all material inputs are retained as part of record keeping obligations. Without proper supporting documentation, it can be unclear whether an entity and its directors have sufficiently considered, understood, and reviewed their disclosures, and whether these are based on reasonable and well-considered inputs and assumptions.

For reporting and record keeping processes that have been established for some time (and cross over from financial reporting) there will be higher expectations. For example, we would expect to see minutes from governance body meetings to verify some of the governance section disclosures.

It is the CREs obligation to ensure that records that have been produced and/or maintained by a third party are available to the FMA for inspection. When engaging a third party, entities should ensure that all material data on how this information was obtained, and the models used, is included in the reporting from the service provider and remains accessible for the time frame prescribed in Section 461X, Part 7A of the FMC Act.

The types of information and records the FMA may ask to inspect (but is not limited to) include:

- Calculation methodologies, data, and data sources.
- Documentation explaining the rationale, source and reasonableness of materiality, methodologies, estimations, uncertainties, assumptions, and exclusions.
- Meeting minutes.
- Documents outlining entity structure, policies, processes, strategy, and contracts.
- Greenhouse gas (GHG) inventory report (to validate compliance with the disclosed GHG measurement and reporting standard).

The FMA expects to issue detailed record keeping guidance in Q2 of 2023 that will provide more detail on the types of information and records the FMA may request for the final climate standard requirements (due to be issued in December 2022 by the XRB).

Other relevant guidance and resources

This document should be read in conjunction with other information published by the FMA, including:

- [Regulatory response guidelines](#)
- [FMA CRE webpage](#)

Appendix: Record keeping legislation

Section 461V, Part 7A FMC Act states:

- (1) Every climate reporting entity under section 461O (1) must ensure that there are records kept at all times that will enable the climate reporting entity to ensure that its climate statements comply with the climate-related disclosure framework.
- (2) Every manager that is a climate reporting entity in respect of a registered scheme must ensure that there are kept at all times records that will enable the manager to ensure that the climate statements relating to the registered scheme comply with the climate-related disclosure framework.
- (3) Every climate reporting entity must establish and maintain a satisfactory system of control of the records that it is required to keep under this section.

Section 461W (1), Part 7A of the FMC Act states that every CRE must keep the climate-related disclosure (CRD) records in the manner prescribed in regulations. We understand that the [Ministry of Business, Innovation and Employment \(MBIE\)](#) is working on regulations and an exposure draft is scheduled to be released for public consultation in Q4 this year.

Section 461X, Part 7A of the FMC Act states that CRD records, or copies of them, must be retained by the CRE for a period of at least seven years after the date the records are made.

Section 461Y of the FMC Act requires that every CRE must make the CRD records available, in the prescribed manner, at all reasonable times for inspection without charge (and lists the relevant parties including the FMA).

The purpose of these record keeping provisions is to support compliance with CRE duties and obligations under the FMC Act and the climate-related disclosure framework (Aotearoa New Zealand Climate Standards NZ CS1, NZ CS2 & NZCS3) as issued by the XRB.

