Sustainable Finance Progress Report

December 2022

CENTRE FOR
Sustainable Finance
TOITŪ TAHUA

Waipuna-ā-rangi

Hiwa-i-te-rangi

Ururangi

Matariki

Tupu-ā-rangi

Tupu-ā-nuku

Waitī

Waitā

Pōhutukawa

Kia ora

The purpose of the Centre for Sustainable Finance is to accelerate progress toward an equitable, inclusive and sustainable financial system. Our work is anchored in the Sustainable Finance Forum's 2030 Roadmap for Action.

The Roadmap had input from more than 200 stakeholders including representatives from banks, insurance companies, industry, Māori businesses and Iwi, professional services, civil society, academia and government.

It details 11 key recommendations to achieve a sustainable financial system, which is necessary for Aotearoa New Zealand to meet its climate commitments and shift to a sustainable, equitable and inclusive economy. One recommendation was to establish the Centre to coordinate implementation and track progress.

Tracking system change is a complex undertaking. Tracking implementation of the roadmap recommendations, as a proxy for system-level change, is a pragmatic approach. This report offers a snapshot of progress toward the Roadmap. The report was formed through desktop research and extensive conversations with stakeholders over the past year, some of whom formally contributed to this report (we thank you).

This report sits alongside video comments from stakeholders, recordings from our inaugural State of Sustainable Finance Event in November 2022, and case studies of sustainable finance from New Zealand capital providers. Case studies can continue to be submitted for showcasing on our website.

2023 will bring renewed challenges — mandatory climate disclosures, the increasing importance of nature disclosures, legislation relating to the Conduct of Financial Institutions, the development of better tools for defining sustainable financial products, and the implementation of sector-level decarbonisation pathways.

More than ever before, public and private leadership and collaboration is crucial to developing a resilient, fit-for-purpose financial system, meeting our national climate and sustainability goals, and the expectations of international investors, customers, consumers and regulators.

We hope our report will bring continued focus to the crucial role of sustainable finance in Aotearoa New Zealand's shared prosperity and international economic proposition.

Jo Kelly
Chief Executive

Bridget Coates
Chairperson

Acknowledgements

We acknowledge the many individuals who contributed to this report, including representatives from the following:

- The Treasury
- Reserve Bank of New Zealand (RBNZ)
- Commerce Commission
- External Reporting Board (XRB)
- Financial Markets Authority (FMA)
- Ministry for the Environment (MfE)
- New Zealand Green Investment Finance (NZGIF)
- The Institute of Finance Professionals New Zealand Inc (INFINZ)
- Insurance Council New Zealand (ICNZ)
- New Zealand Bankers' Association (NZBA)
- New Zealand's Exchange (NZX)
- Sustainable Business Council (SBC)
- Sustainable Business Network (SBN)

If you would like to submit a case study for publication on the Centre's website or inclusion in the 2023 progress report, please contact us at connect@sustainablefinance.nz.

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Sustainable Finance Forum Implementation principles

1

Leadership

Many of the SFF Roadmap Recommendations may have regulatory components but this should not hold back public and private sector leaders from making voluntary changes and challenging others to do the same.

2

System change

The SSF Recommendations are targeted at a whole-of-system change. These recommendations do not simply rely on 'adding environmental and social' factors into existing legislation, norms and frameworks. When implementing these recommendations, key parties should start from first principles and reconsider the status-quo.

3

From shareholder to stakeholder capitalism

Shareholders are critical to capitalism, without their risk capital, organisations could not operate. We see a sustainable financial system as one where impacts (planet, people and profit) are afforded equal importance.

4

Interconnectedness and timely action

The Roadmap priority areas and subsequent recommendations are interconnected. Although we have identified four Higher Priority Actions, as has been shown internationally, action is necessary across all Priority Areas to drive the transformation (e.g. responsibility, governance).

5

Learning from others

We are not starting from scratch. The international policy landscape for sustainable finance has largely been set. Many of our recommendations have domestic or international precedents and we can learn from these examples.

Executive Summary

Toitū Tahua: Centre for Sustainable Finance (the Centre) is pleased to provide this snapshot of progress toward a more equitable, inclusive and sustainable financial system. The Sustainable Finance Forum's 2030 Roadmap for Action (the Roadmap) provides the basis and baseline for this report.

Following similar initiatives in the UK, Canada, Europe, Asia and Australia, the Roadmap was developed by an industry-led technical working group over a two-year period, under the guidance of a high-level steering group co-chaired by Matt Whineray and Karen Silk.

In the preamble to the Roadmap, the Co-Chairs noted that 95% of the 200+ New Zealanders who engaged with the forum in its kōrero, including those in the highest echelons of the financial sector, believe the current financial system is neither sustainable nor inclusive. They called on business, Government and civil society to join the forum in supporting the changes outlined in the Roadmap.

As you will read in the actions outlined in this report, their call was answered. Progress is happening.

In July 2021, leading financial institutions, insurers, crown entities, and philanthropy, with support from The Aotearoa Circle, came together to establish Toitū Tahua: Centre for Sustainable Finance. In its establishment year, the Centre has convened a notable implementation network and delivered a significant programme of work.

In addition to establishing the Centre, major banks working with leading corporates drove a proliferation of sustainability-linked loans and bonds, with $2.2 billion of loans executed by early December to borrowers from a widening range of sectors, including hotel/tourism, local authorities, financial services, horticulture and viticulture.

Meanwhile, New Zealand domestic borrowers issued $6.3b of Green, Sustainability and Sustainability-Linked Bonds in 2022 — double the 2021 volume.

Beyond our borders, strategic coordination accelerated the pace and breadth of Net Zero by 2050 commitments from global financial institutions, with USD130 trillion AUM committed under the umbrella of the Glasgow Financial Alliance for Net Zero (GFANZ). At home, five major banks, two insurers, Crown Financial Institutions, and our most ambitious fund managers have committed to Net Zero by 2050.

Industry organisations, professional advisors and educators have also stepped in.

It is rare these days to attend a business conference or training programme that doesn't place at least some importance on sustainability and ESG.

Legal opinions have provided guidance on some of the more fundamental aspects of ESG, namely the purpose of companies, and directors' duties to stakeholders.

Global initiatives such as Chapter Zero, hosted in New Zealand by the Institute of Directors, have found a foothold amongst the relatively small group of individuals who share the collective duty to steward our largest companies through their transition, and adaptation, to a low-emissions economy in a changing climate.

In parallel, committed government leaders and officials have made steady progress on the foundational underpinnings of some of the Roadmap's key recommendations.

New Zealand has established a sovereign green bonds framework, Crown responsible investment framework, Carbon Neutral Government Programme, high-level plans for emissions reduction and adaptation, and mandatory climate disclosure standards.

Alongside the more technical recommendations of the Roadmap, progress is also being made on some of the complex but fundamental actions.

A point of notable leadership: in a world that is still grappling with the value vs. values debate, the External Reporting Board (XRB) is leading on development of a voluntary reporting framework that is exploring te ao Māori views and a mātauranga Māori approach. This has the potential to fundamentally re-imagine the role and responsibility of a company to its stakeholders.

Very encouraging progress.

But there is a long path ahead before our financial system is actually sustainable, equitable and inclusive. Not only do we need to achieve these outcomes, our status as a net importer of capital demands that we remain connected and aligned with global developments in sustainable finance.

The United Nations Environment Programme Finance Initiative (UNEPFI) recently stated that even if all the policies to cut carbon that governments had put in place by the end of 2020 were fully implemented, the world will still warm by 3.2C this century: now is the time for the greatest ambition. Regardless of warming trajectories, rapidly shifting expectations among international providers of capital mean we cannot afford to falter on our sustainable finance trajectory.

Recent reports by Deloitte and KMPG highlight critical skills and capability gaps across the Aotearoa New Zealand financial eco-system.

Yet, financial system improvements need to be sustained at a continually increasing pace to keep up with the changing expectations, technologies and capabilities in global capital markets and among our key trading partners.

Global forces aside, New Zealand investors and lenders are making so-called sustainable investment decisions today that will have implications for New Zealanders for generations to come.

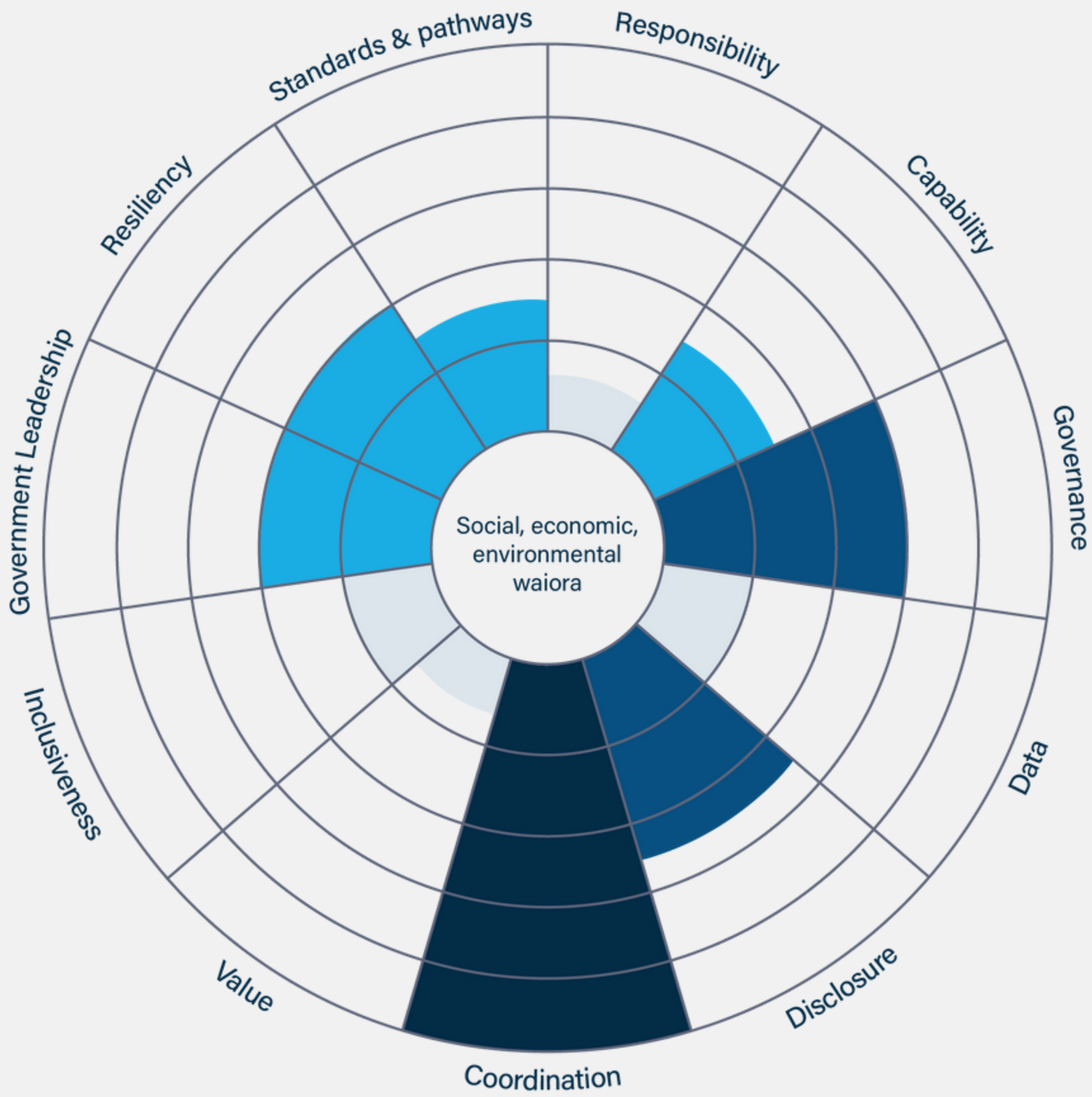
In short, we still need the data, disclosure, definitions and skills to expand the scope of sustainable finance and understand where, and how, it is driving real economy outcomes that keep us within planetary and social limits.

We need to leverage the very best talent we have and engage in deep, coordinated collaboration to develop the financial system architecture that enables capital to flow easily to the social, environmental and cultural outcomes we want.

This progress snapshot was developed through qualitative insights from stakeholder interviews and desktop research. We looked across the Roadmap and mapped its recommendations to relevant initiatives happening in the market and government.

Progress Snapshot

The diagram below represents an aggregate view of reported progress towards the 11 priority areas in the 2030 Roadmap for Action in 2022.



Insufficient progress
Limited progress
Progress
Actions implemented

Responsibility

Recommendation 1: Explicitly require financial system actors to consider, manage and account for environmental and social risks and opportunities and real-world impacts

Roadmap recommendation

1 2 3 4 5 6 7 8 9 10 11

Explicitly include the consideration of environmental and social factors within fiduciary duties.

a) Commission a supplementary legal opinion(s) on current obligations of other financial system actors in respect of climate change (e.g. trustees), and then obligations of all financial system actors in respect of ESG more broadly.

b) Follow this with the inclusion of environmental and social factors within applicable fiduciary duty legislation. Support this through consideration of the need for differential treatment, phasing in or targeted support for SMEs and non-institutional investors.

c) Provide market guidance on the legal responsibilities of financial system actors regarding incorporation of ESG factors and positive environmental and/or social outcomes. This can include amendments to existing guidance notes, and would aid in assisting market participants to understand and implement these requirements.

Progress

Legal opinion

In 2019, Chapman Tripp was engaged by The Aotearoa Circle to prepare an opinion on the duties of company directors and managed investment scheme providers regarding climate change risk. In July 2021, it published a further legal opinion that confirms this commonsense legal advice for New Zealand trustees. The opinion is based on trustees' duties to act in the best interests of beneficiaries, to invest prudently, and to act impartially between beneficiaries.

The preparation of a general legal opinion on these topics was a significant development for New Zealand. Chapman Tripp and The Aotearoa Circle then issued a practical tool kit for directors to assist boards to work through climate risk management.

Remove barriers to purpose-led businesses and investment models.

a) As part of the legal opinion(s) above, assess whether, under common law, financial system actors are expected to consider their positive environmental and/or social outcomes as part of decision-making; and if so, how perceived (or actually planned) trade-offs between financial and sustainability outcomes should be managed.

b) ’s recommendations from their report ‘Structuring for Impact’ be adopted.

Progress

Institute of Directors and MinterEllisonRuddWatts white paper on corporate governance

In May 2021, the Institute of Directors and MinterEllisonRuddWatts published a white paper outlining the evolving corporate governance landscape in relation to stakeholders. It includes significant developments and trends around the world and in New Zealand, relevant law in New Zealand and guidance for boards. It concludes with a call for the Government to review the framework for directors’ duties in the Companies Act 1993. Specific reference to these Roadmap recommendations can be found in pages 14 and 15 of the paper.

Companies (Directors Duties) Amendment Bill

The Companies (Directors Duties) Amendment Bill is a private members bill (Hon Duncan Webb) introduced on 23 September 2021. The Bill proposes to clarify by an amendment to the Companies Act that a company director, in acting as the mind and will of the company, can take actions that take into account wider matters other than the financial bottom line. This may include matters such as te Tiriti principles, environmental impacts, good corporate ethics, being a good employer, and the interests of the wider community.

Meanwhile, the Charities Amendment Bill had its first reading in October and was referred to the Social Services and Community Committee, with submissions closing on 9 December 2022.

Capability

Recommendation 2: Raise capability in sustainable finance through education and training.

Roadmap recommendation

1 2 3 4 5 6 7 8 9 10 11

Build the sustainable finance capability of professionals and Financial Services Licenses. Incorporate sustainability and tikanga concepts into the agenda of professional training programmes and qualifications.

a) In the short term, add specific examples and modules on different aspects of sustainable finance into The New Zealand Certificate in Financial Services and other levels of training.

b) In the longer term, undertake a thorough review and consultation to integrate sustainable finance throughout the professional training courses and licencing requirements, particularly Level 5 Certificate in Financial Services.

c) Work with Chartered Accountants in Australia and New Zealand (CA ANZ) to ensure sustainability and sustainable finance are integral components within accreditation programmes for Chartered Accountants.

d) Work with Financial Services Council (FSC), Financial Advice New Zealand (FANZ), Chartered CA ANZ, the Responsible Investment Association of Australasia (RIAA) and other financial sector associations to ensure that sustainable finance is fully integrated into Continuing Professional Development. Finance sector organisations implement training on basic sustainable finance concepts and tools for key staff in their organisations.

Progress

Net Zero Investor Community of Practice

The Aotearoa Investor Coalition for Net Zero established a net zero community of practice to support investors and asset owners to connect, share and learn from each other in their net zero journeys. The community is supported by Deloitte and meets every month.

INFINZ Climate Disclosures Masterclass

To assist corporates to understand their reporting obligations under the Climate-related Disclosures (CRD) regime, INFINZ developed a focused CRD training course. The masterclass series aims for companies to largely use their own resources in meeting their CRD obligations. It covers the essential ‘how to’ elements of the CRD regime: from how to establish effective management governance structures, to how to set targets that will improve an organisation’s resilience to climate change. By early December 2022, INFINZ had 170 registrants through the masterclass programme.

Integrate sustainability and sustainable finance explicitly into the Financial Advice Code and Financial Services Licenses.

a) The Code of Professional Conduct for Financial Advice includes, explicitly, requirements for sustainability to be an integral aspect of financial advice.

- Short term: FMA to issue guidance to clarify that financial advisers have responsibilities to raise issues of sustainability with their clients under the Code.
- Longer-term, amend the Code of Professional Conduct for Financial Advisors to ensure greater clarity through the introduction of explicit and mandatory provisions for sustainability.
- Introduce new requirements, through legislation if needed, to require financial advisers to ask their clients about values and ethics in their financial services, with specific inclusion of sustainability.

b) Encourage financial advisers to undertake training in Responsible Investment and to gain certification in responsible investment, such as through the RIAA certification for Financial Advisors.

c) Demonstrated capability in sustainable finance becomes a requirement of the licencing process for the full range of financial service providers.

Progress

Update provided by the FMA: Code standard 3 ('Give financial advice that is suitable') and Code standard 4 ('Ensure that the client understands the financial advice') already enable financial advisers to raise issues of sustainability with their clients, importantly with clear, associated expectations the client understands any recommendations arising from those discussions.

Recommendations to link that requirement more explicitly with issues of sustainability – in the short or longer term – are more appropriately addressed to the Code committee, which is responsible for the review and development of the Code and for recommending changes to the Minister.

Michael Hewes, FMA Head of Financial Advice says, "Should the FMA provide guidance focussed solely on sustainability, or on any other single aspect of financial advice, this may not be consistent with 'balanced and objective advice' for customers."

Build the sustainability and sustainable finance capability of the public sector, prioritising policymakers initially.

a) Develop and implement a targeted training programme for the public sector, commencing with policy makers.

Progress

Progress unknown.

Provide education and training for directors, management and trustees.

a) The Institute of Directors to prepare guidance for inclusion of sustainability issues into Directors' and Trustees' reports.

b) The Institute of Directors and others provide specific training on sustainability and related issues of diversity and cultural competence for current and future Directors and Trustees, and integrate sustainability and sustainable finance into the main course offerings, including the Company Director's Course, and into Continual Professional Development (CPD).

c) Work with the Sustainable Business Council (SBC) and other partners such as finance industry associations to develop and implement a training programme for management on sustainability and sustainable finance. This course should aim to demonstrate the clear interdependences between the environment, society and finance.

Progress

Chapter Zero (non-executive directors)

In March 2022, the Institute of Directors New Zealand (IoD) launched Chapter Zero New Zealand - the national chapter of the Climate Governance Initiative. The mission of Chapter Zero New Zealand is to mobilise, connect, educate and equip directors and boards to make climate-smart governance decisions, thereby creating long-term value for both shareholders and stakeholders. Supporters of Chapter Zero receive access to a range of resources, news and events to grow their skills and knowledge. Toitū Tahua: Centre for Sustainable Finance (the Centre) is part of the Chapter Zero working group, which presents an opportunity to align the work of both organisations and connect with the director community.

Climate Governance Workshops & Guide for non-executive Directors

The World Economic Forum developed a set of Climate Governance Principles for boards of directors, with a view to enabling directors to gain climate awareness and skills, embed climate considerations into board decision-making, and understand and act upon the risks and opportunities that the climate emergency poses to the long-term resilience and business success of their companies, while taking into account all stakeholders.

In alignment with the CGI principles, Deloitte, the Sustainable Business Council (SBC) and the Centre developed a four-part Climate Governance programme for non-executive directors. The four workshops include global best practice, insights, and guidance on governance for climate change risk, TCFD compliance, and ESG performance. In November 2022, the directors' insights were released as the Directors' Guide to Climate Governance, which is available in the public domain to all directors.

Progress continued...

EY Sustainability Academy

The Aotearoa Sustainability Academy, co-designed by Toitū Tahua: Centre for Sustainable Finance and EY, is a six-part online certificate designed to enable learners at any level of sustainability proficiency across all business functions. These functional skillsets feature basic-level courses in sustainability awareness so that anyone can get started. Training modules include Sustainability Fundamentals, Sustainable Finance, Sustainable Business, Circular Economies and Consumers, Food Systems of the Future.

National Māori in Governance Summit

The National Māori in Governance Summit is a biennial event started in 2022, hosted by Te Pūtea Whakatupu Trust, which aims to grow and inspire the next generation of tikanga-led, future-focussed Māori governors. The summit is proudly a by Māori, for Māori kaupapa, presenting a vast selection of kōrero and whakaaro from across the Māori governance sector.

CFO survey & workshops

In 2021 Deloitte, the Sustainable Business Council (SBC) and the Centre launched an annual survey of New Zealand CFOs to provide insights on the progress of their organisations, how they see their role, their contributions as CFOs, and barriers to progression. Deloitte partnered with the SBC to deliver cohort-based learning experiences for CFOs on sustainability and sustainability reporting. The survey and workshops were delivered again in 2022.

Business for Good programme

The Business for Good pilot was designed to support companies to validate and demonstrate their sustainability progress, while also demystifying impact improvement by showing it in practice. A collaboration between the Sustainable Business Council, Sustainable Business Network, B Lab AANZ, Ministry for the Environment and New Zealand Trade and Enterprise is developing the pilot programme into a national initiative.

Climate Action Toolbox

The Climate Action Toolbox is a Ministry for Business, Employment and Innovation, Sustainable Business Network, Bank of New Zealand, Energy Efficiency & Conservation Authority, Spark Lab, New Zealand Trade and Enterprise, Waka Kotahi NZ Transport Agency and DNA Design collaboration to make a programme available to small and medium enterprises to enable them to take action to measure and reduce carbon emissions. A carbon calculator was added to the toolbox in June 2022.

Incorporate sustainable finance into the formal education system. Build integrative learning about sustainable finance into schools.

a) Capability in sustainability and sustainable finance be integrated into both financial education and sustainability education and be included as part of the core curriculum and Māori Medium Education.

b) Consult on curriculum content with teachers and other education professionals, as well as sustainable finance professionals. Integrate sustainable finance into tertiary education.

c) Convene a high level dialogue with Business and Management Schools to identify future requirements for graduates in sustainable finance and encourage the development of integrative courses and degrees to meet future needs

Integrate sustainable finance into tertiary education.

a) Convene a high-level dialogue with Business and Management Schools to identify future requirements for graduates in sustainable finance and encourage the development of integrative courses and degrees to meet future needs.

Progress

University of Otago Sustainable Finance minor

In 2023, the University of Otago will be the first and only New Zealand university offering a Sustainable Finance minor. All teaching will take place on campus in lectures, labs and tutorials. The Sustainable Finance minor incorporates FINC 320 Sustainable Investments, which has sessions in the University's Bloomberg Markets Lab, one of the largest academic trading labs in New Zealand where students use real-time financial and non-financial data on companies and portfolios, improving data analysis and digital literacy skills.

University of Auckland Master of Applied Finance specialisation in Sustainable Finance

At the end of 2023, the University of Auckland is launching a new Master of Applied Finance programme (MAppFin). The programme will give students the option to specialise in Sustainable Finance, which will include two dedicated courses plus an industry consultancy project which students will complete in collaboration with a local company/firm.

University of Auckland Centre for Inclusive Capitalism

The University of Auckland is also developing a research centre with the working title 'The Centre for Inclusive Capitalism', which will provide a platform for cross-disciplinary research across all aspects of the economy. The University of Auckland has also restructured its core Bachelor of Commerce curriculum to boost teaching of sustainability, the Tiriti, and the role of business in society.

Educate and strengthen the capability of consumers and the public.

Provide clearer consumer information and protect consumer rights.

a) The government support enhanced transparency and consumer information on sustainable finance.
b) The FMA takes greater action on the use of misleading claims to counter greenwashing and confusion amongst consumers.

Improve the understanding around sustainability and sustainable finance for the adult public.

a) Integrate sustainability and sustainable finance into the mandate of the CFFC. The CFFC consider the various aspects of sustainability and sustainable finance and include these in its programmes and resources.

Progress

Net Zero Commitments

In October 2021, in alignment with the establishment of the Glasgow Financial Alliance for Net Zero (GFANZ), Mindful Money partnered with the Investor Group on Climate Change (IGCC) and Toitū Tahua: Centre for Sustainable Finance to launch the Aotearoa NZ Investors and Asset Owners Coalition for Net Zero. The coalition launched with a well-attended webinar and survey of New Zealand investors to identify those who have, or are considering, net zero pledges.

The coalition established a net zero community of practice to support investors and asset owners to connect, share and learn from each other in their net zero journeys. In 2022 it repeated and expanded the survey.

***Update provided by the FMA*: FMA guidance**

The FMA published its expectations of issuers in its Disclosure Framework for Integrated Financial Products in December 2020. This guidance is relevant to issuers of financial products that incorporate non-financial factors.

Progress continued...

Update provided by the FMA: **FMA ethical managed funds review, and consumer advice**

The FMA reviewed ethical investing claims in managed funds and published the Integrated financial products: Review of managed fund documentation report in July 2022, which focused on a review of disclosure practices for a sample of managed funds (including KiwiSaver funds) that use an 'integrated financial product' (IFP) label in their name or description.

Here's an example from the report to highlight potentially misleading or confusing content. The report reviewed the use of standards by IFP funds, like the United Nations Principles for Responsible Investment (UNPRI), and found ten of the fourteen funds reviewed, cited being signatories to the UNPRI. Explanations were typically high-level while not necessarily clearly explaining what being a UNPRI signatory meant; four of the IFP funds provided a link to the UNPRI reporting requirements. The FMA's expectation of an IFP fund that cites its membership or association with an external provider as a positive feature for the fund and its investors (whether explicitly or implicitly), is that it should provide clear and accessible disclosure to avoid potentially misleading or confusing an investor (see page 15 of the report).

The FMA has a dedicated webpage for consumers on Ethical Investing which addresses greenwashing and provides tips on making a decision on a ‘green bond’.

The FMA says future consideration will be given to the use of enforcement tools within the authority's regulatory remit.

Mindful Money

Mindful Money is a long-standing charity that promotes ethical investment and provides New Zealanders who want to invest ethically with objective information and research to compare their options. In its 2022 impact report, Mindful Money charts progress on a number of initiatives designed to enable an 'educated and engaged public'. These include its annual conference, online seminar series, workplace seminars, and a dedicated platform for ethical investing. Mindful Money also hosts New Zealand’s first impact investment directory.

Governance

Recommendation 3: Improve public sector governance and accountability for positive environmental and social outcomes.

Roadmap recommendation

1 2 **3** 4 5 6 7 8 9 10 11

Improve public sector governance and accountability for positive environmental and social outcomes.

a) Regulatory mandates be updated to include explicit requirements around sustainability and sustainable finance. This includes key players such as Treasury, Reserve Bank of New Zealand (RBNZ), the Financial Markets Authority (FMA) and the External Reporting Board (XRB).

b) Future policy development considers and integrates positive environmental and social outcomes and sustainable finance concepts, commencing with a clear government sustainability strategy to lead us. For example, we recommend environmental and social outcomes and impacts be considered and integrated when developing and reviewing financial regulations, financial sector development plans, and legal frameworks.

c) Government clearly assigns accountability and responsibility across the public sector for each key Sustainable Development Goal (applicable to Aotearoa New Zealand) and achieving SDG goals is clearly included within each entity's mandate.

Progress

Update provided by the FMA: The FMA notes regulatory mandates require a change in legislation, which is a decision for the Government of the day.

Update provided by the RBNZ: **RBNZ and the Financial Policy Remit**

RBNZ's mandate will continue to focus on monetary policy and financial stability and it is through those lenses that it is considering ESG-related factors. Under the Financial Policy Remit (FPR), RBNZ policies must 'have regard' to both climate change and financial inclusion. Specifically, the FPR issued by the Minister of Finance in July 2022 states on those topics:

- **Climate change**

The Government has a priority of building resilience and facilitating adaptation of New Zealand's economy, society and environment to climate change. It is important that the financial system continues to play an appropriate role in supporting community wellbeing and resilience as it responds to that transition and increases in underlying risks as a result of climate change.

- **Financial inclusion**

The Government has a priority of improving financial inclusion and maintaining financial sector diversity, including supporting access to finance and financial services for those who are less well-served by traditional institutions, including rural communities, disabled persons, low-income individuals, and small businesses.

Incorporate long-term thinking and the need for positive environmental and social outcomes more explicitly within Governance Codes and purpose statements.

a) The SFF supports the New Zealand Exchange (NZX)'s proposed review of the NZX Corporate Governance Code that will be undertaken in 2021, which will include a review of Principle 4.3 which relates to non-financial disclosures.

b) The FMA Handbook and NZX Corporate Governance Code be more explicit around the recommendations for a long-term strategy, be updated to recognise explicitly the risk of climate change, the interdependencies between environmental, social and economic performance (as opposed to separating financial and 'non-financial'), reflect the importance of operationalising the Living Standards Framework, and recommend entities to have a clearly defined social purpose.

c) Have private and public sector entities explicitly include their environmental and social purposes within their Constitution, Statement of Intent (with supporting Letter of Expectations), or publicly disclosed Mission and Values statements, as appropriate.

d) Directors and business leaders encourage social purpose and long-term thinking by linking this to executive KPIs and CEO and officer remuneration (i.e. an explicit link between Principle 8 (Shareholder relations and stakeholder interests) and Principle 5 (5.2 and 5.3) (remuneration)).

Progress

NZX exposure draft of Corporate Governance Code

In August 2022, the New Zealand Stock Exchange (NZX) released an exposure draft of the changes it proposes for the NZX Corporate Governance Code, following the initial round of submissions on its 2021 review document. NZX also released an exposure draft of proposed changes to its ESG Guidance Note, which are complementary to the proposed amendments to Principle 4 of the Code. NZX expects the revisions will take effect for a listed entity's first full financial year commencing on or after 1 April 2023. Notable changes in the exposure draft signal a strengthening of the NZX ESG guidance and include a new section on climate-related disclosures, as well as the following points:

- All over the world, it is now considered mainstream for companies and entities to report on ESG and responsible investment.
- Climate change and depletion of resources mean investors may consider sustainability as an important factor when making investment choices, and issuers who provide disclosures in this area may benefit from more efficient access to capital.

The ESG Guidance Note exposure draft also includes explicit guidance that issuers explain the material ESG risks faced by their business, how they intend to manage those risks, and the risk management framework that they use to identify, monitor, and manage them.

Update provided by the FMA: The FMA published its role in an integrated financial system based on the Treasury's Living Standards Framework. An integrated financial system requires organisations to take account of their impacts on environment, communities and individuals, alongside traditional financial considerations; and of how these factors impact the organisation, including its financial performance. The FMA's regulatory role in any policy-driven transition to an integrated financial system is to support confident, informed investor participation in capital markets. A key part of this is providing clarity and guidance on what the FMA expects of financial sector entities and taking action as required, publicly or privately, on misconduct.

Introduce a Stewardship Code for financial institutions and link this to the licensing requirements of KiwiSaver and managed fund providers.

a) An Aotearoa New Zealand Stewardship Code for asset owners, fund managers and financial intermediaries, which aligns with international leading practice (such as UK's 2020 Stewardship Code) be developed.

b) Longer-term, linking licencing requirements to adoption of the Code including requiring default KiwiSaver providers to become signatories to the Code.

Progress

Aotearoa New Zealand Stewardship Code

In October 2022, a Stewardship Code development committee led by Erica Miles, and supported by Chapman Tripp launched an Aotearoa NZ Stewardship Code with seven founding signatories. It gives investors a clear framework for using their influence to steer the companies they own on critical environmental, social and corporate governance issues.

The Code was industry-driven and developed in broad consultation with market participants and regulators. The principles were mapped against existing regulatory requirements and key international codes (including the UK 2020 Code) and took into consideration the local market and cultural context.

This Code is unique to Aotearoa New Zealand because:

- it has a wider reach and there are multiple opportunities for stewardship in investment management.
- it gives more prominence to the importance of sustainable outcomes for our environment, our society, and our economy – in that order.
- signatories are encouraged to consider Te Ao Māori and other cultural aspects when applying the principles of the Code.
- it is simpler than other codes, with a focus on delivering the goals of effective stewardship.
- there is an emphasis on collaboration and advocacy for change. This element has been elevated into a standalone principle.
- there is recognition of the need to educate, learn and improve. The Code acknowledges the (current) capacity and capability of the industry and emphasises the importance of learning and improving.

A Founding Signatory is an investor/organisation that commits to adopting and embedding the inaugural Stewardship Code for Aotearoa New Zealand within three months of its release – i.e., one that publicly commits to adopting the Code on a 'comply or explain' basis by 28 December 2022.

The Code will be independently governed, with a secretariat jointly supported by Toitū Tahua: Centre for Sustainable Finance and Responsible Investment Association Australasia (RIAA).

Data

Recommendation 4: Improve data and information quality and availability, including through the use of fintech.

Roadmap recommendation

1 2 3 4 5 6 7 8 9 10 11

Establish clear leadership and accountability for data infrastructure.

a) Further investigation be undertaken to identify an entity which could be tasked with driving forward the critical data agenda.

b) Pending this investigation, as needed, establish a new entity, similar to those established in Canada and the UK, which would lead, and be accountable for delivering on our first recommendation.

c) Regardless of who takes on the role the entity will need to partner with, and stimulate, strong private and public sector leadership on data, including from within the financial sector, which would seek to evolve the progress of open banking towards a broader ‘open finance’ approach, similar to the approach taking place in the UK and led by the Financial Conduct Authority.

Progress

Data portal

The Government has committed to delivering, by the end of 2022, the first phase of portal(s) which will address gaps in Aotearoa New Zealand’s ability to use, translate, and make hazard risk data easily accessible, including climate data. These portals will also include strategies and frameworks to help communities make risk-informed decisions and design their adaptation solutions.

The October 2022 report by the Parliamentary Commission for the Environment, titled 'Environmental reporting, research and investment: Do we know if we're making a difference?', finds that parliamentarians and the public cannot easily get the information they need to hold the Government to account for its environmental expenditure and that the links between environmental information, research and expenditure are often tenuous, lacking in transparency and governed by short-termism.

This sentiment is echoed by financial institutions, which point to the commercial imperative of NIWA and a broader lack of reliable, consistent climate risk data as a crucial challenge for equitably accessing the data required for robust climate-related disclosures.

Identify key data needs and gaps that would enable quality climate-related financial disclosures.

a) Industry associations work with their members to identify and assess their data needs and gaps which will enable quality scenario analysis and hence climate-related financial disclosures.

Progress

Sustainable Agriculture Finance Initiative (SAFI) data project

In January 2022, Toitū Tahua: Centre for Sustainable Finance (the Centre) launched an agriculture data project to explore the issues related to data being a key enabler for the successful implementation of SAFI and improved understanding of climate-related risks. The project investigated and received feedback on issues related to climate data in the agriculture sector and explored a range of options to improve accessibility and address other barriers. Interviews were undertaken with a range of stakeholders from across the agriculture sector, as well as data, and tech solution providers to identify data availability, needs and access issues.

Update provided by External Reporting Board (XRB), Insurance Council New Zealand (ICNZ) and New Zealand Bankers' Association (NZBA): **Sector-level scenarios**

In response to the XRB guidance on developing sector-level scenarios to inform climate-related disclosures, the following industry associations and related umbrella groups have commissioned the development of sector-level scenarios:

- Insurance Council of New Zealand (ICNZ) for general insurance (scenarios completed)
- The New Zealand Bankers Association (NZBA) for banking
- The Financial Services Council (FSC) and Boutique Investment Group for managers of registered investment schemes, KiwiSaver providers and health and life Insurers
- The New Zealand Green Building Council (NZBC) for materials and buildings
- The Aotearoa Circle for marine, agriculture, and tourism.

Other sectors are also in discussion about commencing similar work.

Establish trusted governance infrastructure to enable open or shared data.

a) Aotearoa New Zealand invests in a collaborative data governance platform with supporting standards (similar to that used for open banking) and agreements (such as pre-emptive licensing) for environmental and social data.

b) The data governance platform initially focuses on providing data and information to support the analysis of climate-related financial risks, and enable climate-ready investments. This data infrastructure then extends more broadly to other environmental and social data.

Progress

Data portal(s)

As indicated above, in its National Adaptation Plan, published August 2022, the Government has committed to delivering, by the end of 2022, the first phase of portal(s) which will address gaps in Aotearoa New Zealand's ability to use, translate, and make hazard risk data easily accessible, including climate data. These portals will also include strategies and frameworks to help communities make risk-informed decisions and design their adaptation solutions. The lead agencies are the Ministry for the Environment and Toka Tū Ake EQC.

An international development of note is:

GFANZ Data Utility

In October 2022, Mark Carney, founder of the Glasgow Financial Alliance for Net Zero (GFANZ), announced a new public data utility being developed by GFANZ that will make banks and other institutions accountable for meeting the targets they are setting out to cut carbon emissions and will be operational in approximately 2023.

Utilise FinTech solutions to equip the financial system to deliver on environmental and social outcomes.

a) As FinTech is one of the least explored areas of the Roadmap, we recommend a research project be undertaken, drawing upon the approach of the Sustainable Digital Financial Alliance, to identify potential innovations and commercial FinTech opportunities that can be used to empower the financial system to deliver on positive environmental and social outcomes.

Progress

Progress unknown

An international development of note is:

ESGenome

In September 2022, the Monetary Authority of Singapore (MAS) and Singapore Exchange (SGX Group) jointly launched ESGenome, a digital disclosure portal for companies to report Environmental, Social and Governance (ESG) data in a structured and efficient manner, and for investors to access such data in a consistent and comparable format. ESGenome is a joint initiative by the MAS and SGX Group under Project Greenprint.

Project Greenprint is a collection of initiatives that aims to harness technology and data to enable a more transparent, trusted and efficient ESG ecosystem to enable green and sustainable finance. Companies provide a one-time input for each of 27 SGX core ESG metrics. These inputs can be automatically mapped across their selected standards and frameworks to cater to different investor requirements, and a sustainability report automatically generated.

Disclosure

Recommendation 5: Improve and extend external reporting and disclosures.

Roadmap recommendation

1 2 3 4 **5** 6 7 8 9 10 11

Develop consistent foundational metrics and disclosures.

a) Move towards a 'comply or explain' structure and signal a second move to an 'apply and explain' mandatory regime for foundational sustainability metrics and disclosures, similar to the model adopted by the UK Stewardship Code, 2020. This would require reporting entities to disclose their actions and progress against standard reporting criteria, and to explain how their organisation's purpose and actions have contributed to improvements in the organisation's assessment and management of its significant environmental and social issues.

b) A suite of credible, comparable foundational metrics and disclosures that encompass key material stakeholder concerns and leverage international standards is developed. These disclosures should include social purpose, material issues, long-term purpose, and the integration of environmental and social risks and opportunities into strategy.

c) We recommend the External Reporting Board (XRB), in consultation with iwi/Māori and others, be mandated and resourced to develop these standards, using the WEF's White Paper as a starting point.

Progress

Updates provided by the XRB: **Mandatory climate-related disclosures (NZ CS 1)**

In September 2020, the New Zealand Government announced its intention to implement mandatory reporting on climate risks and tasked the External Reporting Board (XRB) with developing reporting standards to support the new reporting regime.

In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was passed and received Royal Assent. As a result, the XRB now has a mandate to issue climate standards as part of a climate-related disclosures framework, and non-binding guidance on non-financial matters.

The XRB issued Aotearoa New Zealand Climate Standards in December 2022. These standards are largely consistent with TCFD and with sustainability standards being developed by the newly established International Sustainability Standards Board (ISSB).

Framework for non-financial reporting

The XRB has started work on developing a world-leading framework for non-financial reporting. The initial focus will be spent exploring te ao Māori and a mātauranga Māori approach. The initial phase will explore the specific reporting needs of Māori reporting entities, to enable the external reporting of the intergenerational and interconnected impact of the various activities undertaken.

The ultimate objective will be to deliver one reporting framework that a broad range of entities can use. The framework will be developed by consulting and engaging with a range of stakeholders as well as with reference to other domestic and international non-financial reporting frameworks.

Extend disclosure requirements to asset owners, fund managers, and large private companies.

a) That public sustainability reporting, including disclosures of the foundational metrics and disclosures outlined above, be required from the following entities, with a focus, in the first instance, on those deemed to be Tier I entities as well as capital providers. For example, the first tranche could include those deemed to be publicly accountable, and include others:

- Tier I Public benefit entities (including Crown Financial Institutions, central and local government) which has public accountability, or is large Public Benefit Entity with total expensed > $30million.
- Registered banks, credit unions and building societies.
- All asset owners and fund managers with greater than $1 billion in total assets under management. (registered and privately held).
- Tier I 'for profit' entities, which are those which have public accountability, or is a large for-for profit public sector entity (with total expenses > $30million).
- All listed equity and /or debt issuers.
- Licensed insurers.

Progress

Mandatory climate-related disclosures (NZ CS 1)

The August 2022 National Adaptation Plan states that by 2024, the Government will have decided whether to extend the mandatory climate-related disclosure requirement to public entities.

In December 2022, the External Reporting Board (XRB) issued climate standards (NZ CS 1, NZ CS 2 and NZ CS 3) and climate-related disclosures became mandatory for large, listed companies with a market capitalisation of more than $60 million; large-licensed insurers, registered banks, credit unions, building societies and managers of investment schemes with more than $1 billion in assets; and some Crown financial institutions (via letters of expectation). These entities will be required to make disclosures alongside wider year-end reporting in 2023 at the earliest.

Supporting high-quality implementation of climate-related disclosures

Key actions to support the high-quality implementation of climate-related disclosures (see Action 3.5 of the National Adaptation Plan) are led by the Ministry for the Environment and XRB. They include promoting industry-led, sector-level climate scenario analysis; facilitating access to climate data; and working with international organisations to support clear, comparable, and consistent climate disclosures.

Improve the approach to, and uptake of, third party verification and assurance.

Initially, the External Reporting Board (XRB) be funded to allow them to support, educate and promote emerging and extended form of assurance, and continues their active participation in the IAASB review.

a) As non-financial disclosures continue to evolve, a programme be developed which trains and registers third-party verifiers and assurers for environmental and social metrics and disclosures. The vision is to create a pool of credible and reliable professionals who could undertake this service, which traditional financial auditors are less able to provide.

b) Longer-term, require assurance over metrics and disclosures related to significant non-financial risks e.g. climate-related financial risks), as well as the circa 21 standard metrics and disclosures identified in the recommendation above.

Progress

Update provided by the XRB: The External Reporting Board (XRB) consulted extensively during 2022 in developing a consultation document and exposure draft to govern assurance engagements over GHG emissions disclosures (as required by section 461ZH of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021).

Consultation included a series of workshops with a wide range of stakeholders and regular meetings with an advisory panel that comprised assurance practitioners from the traditional financial statement audit world as well as other assurance practitioners who are currently providing assurance over GHG emissions and other sustainability information.

The intention is to issue the exposure draft and consultation document in December 2022 and host further interactive sessions in early 2023 with a view to issuing a final assurance standard in June 2023. This should enable assurance practitioners to read and understand the standard before the mandatory assurance over GHG emissions disclosures becomes effective in October 2024.

In addition to developing a domestic assurance engagement standard, the XRB has been actively contributing to the development of an international sustainability reporting assurance standard by the International Auditing and Assurance Standards Board (IAASB). The IAASB plans to issue an exposure draft in September 2023 and the XRB has been closely monitoring international progress in relation to this work to ensure that the New Zealand standard reflects current best practice and is aligned with international developments.

Use the value of quality reporting to drive positive environmental and social outcomes.

a) Encourage the public sector and corporate entities to adopt the Impact Management Project (IMP's) impact measuring and reporting framework to help shift the focus of reporting to deliver positive environmental and social outcomes. As the IMP is a framework rather than a methodology, we believe this provides enough flexibility to make the adoption of this recommendation practical in a short timeframe.

Progress

Progress unknown.

Coordination

Recommendation 6: Establish and fund a (mandated) agile and independent centre for sustainable finance to oversee and coordinate implementation of the recommendations.

Define accountability and responsibility for this Centre and secure adequate funding.

a) Confirm which option for delivery and funding in the short-and medium terms would deliver the desired results.

Confirm the purpose, governance structure and operating principles for the Centre.

a) Establish a clear sense of purpose, supported by a transparent governance structure and operating principles.

Establish clear, measurable and time-bound objectives of the Centre, including:

- Oversee implementation of the SFF's recommendations.
- Encourage collaboration and leadership in the private and public sectors, including Treaty Partners and stakeholder engagement.
- Education - build awareness, capacity and capability.
- Measure, monitor and report on implementation on the Roadmap.
- Identify and facilitate removal of barriers.
- Maintain currency.
- Coordinate the creation of sustainable finance standards and guidelines.

Progress

Establishment of Toitū Tahua: Centre for Sustainable Finance (the Centre)

The Centre was established in July 2021, with support from The Aotearoa Circle, by founding partners: ANZ New Zealand, ASB, Bank of New Zealand, HSBC, IAG, Westpac New Zealand, New Zealand Super Fund, Kāinga Ora: Homes & Communities and The Tindall Foundation.

The Centre was conceived as an enduring entity focused on the sole purpose of advancing the Roadmap's recommendations. It is governed by experienced public and private sector directors. In 2022 the Centre focused on four key recommendations from the Roadmap.

Find out more by reading the Centre's FY22 annual report here.

Key activities

In addition to its advocacy and submissions on standards and policy, its implementation network of market participants has delivered a broad range of projects to advance the Roadmap. These include the Directors' Guide to Climate Governance, a stewardship code, definitional guidance and principles for impact investment, an Aotearoa Net Zero investors and asset-owners coalition, a report on mobilising private capital, and the acceleration of a programme focused on making utilities and financial services available to people who don't currently access them.

Value

Recommendation 7: Integrate environmental, social and cultural outcomes into investment decisions to ensure we operate within planetary and societal boundaries.

Engage in a broad conversation on the idea of value.

a) Engage in a conversation where we define value in more than financial terms. This could be linked to a kōrero to apply a tikanga lens to the financial system (refer to Recommendation 10).

Progress

Update provided by the External Reporting Board (XRB): Following on from the climate-related disclosures regime, the 'Ngā pou o te kawa ora' project, which roughly translates to 'pillars of life', is an XRB project that aims to establish a voluntary, non-financial reporting framework from an Aotearoa New Zealand perspective. The initial phase is being spent exploring te ao Māori and mātauranga Māori, and will explore the specific reporting needs of Māori reporting entities to enable the external reporting of the intergenerational and interconnected impact of the various activities they undertake.

The project aspires to develop a framework that incorporates uniquely Aotearoa New Zealand perspectives, so that entities can tell stories of their value and impact, in ways that are distinctive and meaningful to them and their stakeholders. The XRB aims for the project be relevant in Aotearoa and credible internationally.

Introduce market mechanisms and fiscal incentives to internalise environmental and social outcomes.

a) Strategically increasing the pricing of externalities, through the imposition of costs (taxes) for certain social and environmental harms, and/or payments for social and environmental goods that do not fetch a market price.

b) The NZ ETS be accompanied by complementary/supplementary policies that will further encourage Aotearoa New Zealanders to respond efficiently and equitably to the price signal. This should include the elimination of fossil fuel subsidises, an excise duty on diesel, and changes to petrol and diesel tax/charge rates to consider the environmental costs of transport, expanding water-use and water quality pricing and regulation.

c) The OECD's 2019 recommendations and the Tax Working Group's proposals be revisited and refined through further analysis and implementation.

Progress

In 2021, the Government announced the establishment of the Climate Emergency Response Fund (CERF), which recycles the proceeds of the Emissions Trading Scheme (ETS) into a dedicated fund. The CERF was set up with $4.5b funding, equivalent to the available cash proceeds from the ETS over the period 2022/23 to 2025/26. In the Budget Economic and Fiscal Update, Treasury revised up its forecasts of ETS cash proceeds, indicating that another $800m will be available over that same forecast period.

Broaden financial regulation to integrate and encourage positive environmental and social outcomes.

a) A 'market shaping approach' whereby financial regulation is proactively broadened to recognise and appreciate the interconnectedness of environmental and societal outcomes.

b) These regulations are supported by well understood, consistent and comparable (financial) standards and frameworks.

Progress

Progress unknown.

Account for environmental and social outcomes.

a) In the short-term, Aotearoa New Zealand keep abreast of the approaches being taken by the Value Balancing Alliance and Impact Weighted Accounts initiatives (as well as other emerging similar initiatives).

b) In the longer-term, introduce accounting principles and standards which monetize environmental (and social) impact, with the true cost of impact then publicly disclosed through integrated Profit and Loss, and other financial statements.

Progress

The Financial Markets (Conduct of Institutions) Amendment Act 2022 introduces a new regime regulating the conduct of financial institutions (banks, insurers and non-bank deposit takers) to ensure they treat consumers fairly. It is designed to protect consumers by putting the consumer at the forefront of financial institutions' decisions and actions. The Conduct of Financial Institutions, or CoFI regime, is planned to come into force in early 2025.

CoFI introduces a licencing regime for financial institutions and asks that they have a fair conduct programme which, among other things, has regard to the types of consumers they deal with, including consumers in vulnerable circumstances.

Progress continued….

Update provided by the Ministry for the Environment: **Reforms to the NZ ETS (Industrial allocation)**

The Government provides free allocations of emission units for activities that are both emission-intensive and trade-exposed (EITE). This is called industrial allocation. It recognises that New Zealand Emissions Trading Scheme (NZ ETS) costs might affect the international competitiveness of some businesses, causing firms and/or production to move offshore.

The reform of industrial allocation in the NZ ETS is intended to update decade-old settings that have resulted in some emitting firms receiving more New Zealand emission units (NZUs) than needed, at an estimated cost to Government of $60 million a year.

In 2021, Government consulted on options to address overallocation and other improvements to industrial allocation policy within the NZ ETS. In July 2022, the Government announced it would update allocative baselines, reassess eligibility, and make some other technical improvements.

The Bill enabling these reforms was introduced into the House in December 2022.

Agriculture emissions pricing (He Waka Eke Noa)

The proposed agricultural emissions pricing system is designed specifically for the agriculture sector to ensure it is most effective at reducing emissions in line with Aotearoa New Zealand's emissions reduction targets, is practical to implement, and will maintain a viable and productive agriculture sector. The pricing system will continue to be developed following consideration of consultation submissions, conversations with iwi/Māori and Treaty analysis.

Final policy decisions will be made by Cabinet in March 2023, followed by legislation to give effect to these decisions.

Government procurement to include positive environmental and social outcome.

a) Government establish a Social Value Act (or equivalent), whereby central and local government procurement consider how their procurement could improve the social, economic and environmental well-being. We recommend this integrate the Living Standards Framework.

Progress

Government Procurement Rules

Changes made to the Government Procurement Rules in 2019 place a greater emphasis on using government procurement to support wider social, economic, cultural and environmental outcomes that go beyond the immediate purchase of goods and services. Supporting the transition to a net zero emissions economy is an explicit priority. It requires agencies to support the procurement of low-emissions and low-waste goods and services.

Ministry for the Environment Emissions Reduction Plan

The Emissions Reduction Plan published in 2022 commits 140 government agencies to apply the Government Procurement Rules to reduce emissions and design out waste. They will prioritise:

- transitioning the government fleet to electric vehicles*
- low-carbon options for new government buildings**
- purchasing low-emissions stationery/process heating systems***
- purchasing low-waste office supplies.****

These agencies must also consider how they can reduce emissions resulting from other procurement.

Inclusion

Recommendation 8: Recognise that financial services and products are a utility and create an inclusive financial system.

Roadmap recommendation

1 2 3 4 5 6 7 **8** 9 10 11

Remove account and transaction fees for customers in vulnerable circumstances.

a) Banks remove transaction or account fees for small account holders. This should commence with research around the impact of transaction account fees on customers with low incomes, especially direct debit dishonour fees and over the counter transaction fees.

Progress

Progress unknown.

Provide affordable digital access to all.

a) Financial service and telecommunications sector work together, with the public sector, community and social sector representatives to identify actions to address affordability and connectivity barriers to financial inclusion; for example, zero rated cellular data when accessing social services (similar to 0800 free-call numbers for phone calls).

Progress

Progress unknown.

Develop guidelines and a better approach to coordination between service providers responding to customers in vulnerable circumstances.

a) Notwithstanding privacy considerations, legislation be developed to require financial institutions to report to Government at a macro level on when they are unable provide vulnerable customers a product and the reason why.

b) Develop industry guidelines for the sharing of information between service providers that could provide earlier warning on customers in
vulnerable circumstances.

c) Develop industry guidelines on actions for assisting people in vulnerable situations, including excluded customers, which can provide better long-term outcomes than drastic actions, such as foreclosure.

d) Alongside that, crystallise informal public and private cross-sector collaborations to support customers in vulnerable circumstances, perhaps similar to 'The Thriving Communities Partnership' in Australia.

Progress

In 2021, New Zealand banks undertook a process to develop industry guidance on assisting customers in vulnerable circumstances. The industry is using this guidance, but it will not be published.

Conduct of Financial Institutions

The Financial Markets (Conduct of Institutions) Amendment Act 2022 introduces a new regime regulating the conduct of financial institutions (banks, insurers and non-bank deposit takers) to ensure they treat consumers fairly. It is designed to protect consumers by putting the consumer at the forefront of financial institutions' decisions and actions. The Conduct of Financial Institutions (CoFI) regime is planned to come into force in early 2025.

CoFI introduces a licencing regime for financial institutions and asks that they have a fair conduct programme which, among other things, has regard to the types of consumers they deal with, including consumers in vulnerable circumstances. In effect, this requires financial institutions to have regard to consumers in vulnerable circumstances when meeting each of these CoFI requirements:

- to comply with a 'fair conduct principle' to treat consumers fairly including by having regard to their interests
- to establish, implement, and maintain an effective 'fair conduct programme' which operationalises the fair conduct principle through policies, processes, systems, and controls throughout the business (from the governance level to day-to-day interactions with consumers)
- to comply with the fair conduct programme
- financial institutions and intermediaries involved in the chain of distribution to comply with regulations in relation to incentives based on volume or value sales targets.

The FMA has a dedicated website for the CoFI legislation.

Members of the Council of Financial Regulators (CoFR) have agreed on a common understanding of the characteristics of a vulnerable consumer, namely the 'CoFR Consumer Vulnerability Framework April 2021'.

Progress continued...

Community-led inclusion pilot project

With support from the Centre, Kootuitui, the Tindall Foundation and Mercury, Helen Tua, Mercury Community Liaison Manager, is leading the development of a Thriving Communities Partnership-style model with an existing Mercury-led initiative, Home Sweet Home, at its core. A demonstration project, funding partnership, project team and governance model are being established.

As a preparatory step to inform this project, in July 2022, with guidance from Fleur Howard (CEO, Good Shepherd), Helen Tua (Community Liaison Manager, Mercury) and Martin King (GM-Customer Assist, BNZ) the Centre for Sustainable Finance convened a summit for Māori/Iwi organisations, corporates, community organisations and government/ regulators to hear from each other and the Thriving Communities Partnership Australian team.

The summit was delivered to encourage informal cross-sector collaboration and discuss the suitability of the Thriving Communities Partnership in an Aotearoa New Zealand context.

Following the summit, the Centre established an online forum to help connect participants and continues to support the development of the pilot project.

Provide support for innovative impact products and services targeted at underserved groups.

a) Increase Government funding for pilot micro-finance and payment-for-outcomes programmes to allow them to reach scale and improve expertise within the sector.

b) Collaborative R&D by the public and private sectors and consumers to co-develop new products, services, and institutions that provide access to appropriate forms of finance for currently underserved individuals, households and new business models.

Progress

Good Shepherd 'Good Loans' offering

Good Shepherd NZ has worked with BNZ and MSD to provide interest-free loans to families dealing with financial hardship. People across the country can now access a loan of up to $7,000 interest-free for an essential item or service, or a debt solution loan of up to $15,000 interest-free to help with unmanageable debt through the Good Shepherd 'Good Loans' offering.

Progress continued...

New social lender - Money Sweet Spot

A new social lender called Money Sweet Spot, supported by BNZ, offers a Financial Reset Loan for debt consolidation ($2000-$35,000 unsecured) which lowers debt costs and allows customers to earn Sweetspot Points by paying on time, avoiding further debt, and learning about debt. The loan was launched in December 2022 with a five-year goal to provide a financial reset to at least 50,000 Kiwis and support them to build their credit score, wellbeing, and financial education, and to refinance at least $500m of debt.

DebtFix – Debt Relief Foundation

Throughout 2021 and 2022, Debtfix piloted a new debt solution: ShipShape, a legally binding debt repayment agreement designed for clients with debt obligations to multiple creditors. Amongst many other solutions, DebtFix also guides clients through making a Creditors Proposal – negotiating an affordable repayment plan with creditors. In a three-month pilot with KiwiSaver provider Simplicity, 303 under-stress savers asking for financial hardship withdrawals from KiwiSaver were referred to Debtfix to try to find ways of making ends meet without touching their retirement savings. Only 18% went on to make a withdrawal. More KiwiSaver providers have now started to work with Debtfix for their withdrawal process.

Scale financial mentoring, advocacy and budgeting programmes to all requiring access.

a) Develop a training programme (diploma or equivalent) for financial mentors to increase the quality and consistency of advice, and ideally lead to less turnover in the workforce. These programmes should be developed with the involvement of the community, Treaty Partners, Government and the NGOs.

b) Develop an independent funding body, which is financed by financial sector participants, that can scale-up a range of independent financial mentoring and advocacy programmes that are fit for different underserved communities.

Progress

Debtfix, supported by several community groups, is looking at scoping out a business model for a New Zealand equivalent of Melbourne's Community Action Law Centre.

Address age discrimination in the KiwiSaver Scheme.

a) Revise the section of the KiwiSaver Act 2006 which allows employers to stop KiwiSaver to employees over the age of 65.

Progress

Progress unknown.

Government Leadership

Recommendation 9: Develop a whole-of-government sustainable finance strategy.

Co-develop, with Iwi/Māori, a Whole-of-Government sustainable finance strategy, capturing Central and Local Government. Embed tikanga principles and approaches into the financial system. This also needs to be aligned with the principles of Te Tiriti o Waitangi.

a) Consider how Crown Financial Institutions (CFIs) and other Government-backed funds can more explicitly support the mainstreaming of sustainable finance in Aotearoa New Zealand and achieve positive climate and environmental outcomes.

b) Consider how State-Owned Enterprises and other partially/fully Government-owned companies and entities can more explicitly support the mainstreaming of sustainable finance in Aotearoa New Zealand and achieving positive climate and environmental outcomes.

c) Ensure the sustainability risks within the Sovereign debt portfolio are being managed and the opportunities of green and sustainability sovereign bond products are realised.

d) Ensure the integration of finance, climate change, and other environmental and social risks in policy development.

e) Ensure the integration of sustainability into crisis plans for future crisis responses to ensure that the Government and RBNZ are more prepared to deliver on sustainability outcomes through response measures such as asset purchasing programs.

Progress

Emissions Reduction Plan

In its Emissions Reduction Plan, published in May 2022, the Government underlined its commitment to collaborating with the finance sector to accelerate sustainable finance through continuing support for the Sustainable Agriculture Finance Initiative (SAFI - see page 53 of this report) and continuing to engage with the initiatives of Toitū Tahua: Centre for Sustainable Finance, including regulatory and institutional levers to mobilise private finance.

National Adaptation Plan

Relevant actions in the Government's National Adaptation Plan, published in June 2022, are:

- Support the development of definitional tools to encourage greater investment in 'green' projects (Action 5.14)
- Design and develop risk and resilience and climate adaptation portals (Action 3.2)
- Support high-quality implementation of climate-related disclosures and explore expansion (Action 3.5)
- Publish the programme of work on how Aotearoa meets the costs of climate change and invests in resilience (Action 5.5)
- Develop options for home flood insurance (Action 5.4)
- Public Investment in climate change initiatives (Action 5.15) (Read more on the CERF page 37, Sovereign Green Bonds page 56 of this report)
- Reserve Bank of New Zealand supports the stability of the financial system (Action 10.4)

Progress continued...

Crown Responsible Investment Framework

The October 2021 Enduring Letter of Expectations to Crown Financial Institutions, in relation to responsible investment, issued the Crown Responsible Investment Framework to the NZ Super Fund, the Accident Compensation Corporation, the Government Superannuation Fund, and the National Provident Fund, which collectively manage over $100 billion of investments on behalf of New Zealanders. The Ministers note that the principles-based framework, currently focused on the Government’s pledge to deliver a carbon-neutral New Zealand by 2050, enables clear communication of the Government’s key policies and responsible investment expectations and may evolve to other aspects of Environmental, Social and Governance (ESG) factors where Government policy sets the basis of society’s expectations of responsible investment practice. The framework requires that Crown Financial Institutions (CFIs) be influential in the domestic market on how businesses and investors can drive the transition to a low-carbon economy; and that they actively seek all opportunities to drive the climate transition, from education to active engagement to investment into climate solutions where there is consistency with their investment strategy(s).

New Zealand Green Investment Finance (NZGIF)

NZGIF is a green investment bank established by the Crown in 2019 to facilitate and accelerate investment to lower emissions in New Zealand. It invests in scalable companies, technologies and products that are commercial-ready and offer low-carbon benefits for New Zealand. Investments in the past 18 months include $20 million to help international electric vehicle fleet and battery storage company Zenobe electrify New Zealand’s bus fleet; and $10m to solar-installer solarZero Residential in April 2021. As at June 30, 2022, NZGIF had committed $104.5m capital, with another $72m reserved for the expansion of existing debt facilities; with $115m co-investment committed. At that date, capital committed was estimated to yield lifetime emissions reductions of 580,000 to 710,000 tonnes CO_2e.

Carbon Neutral Government Programme

In December 2020, the New Zealand Government announced a climate change emergency and the establishment of the Carbon Neutral Government Programme (CNGP). This aims to accelerate reductions of emissions within the public sector, and to be carbon neutral from 2025.

Sovereign Green Bond Framework

In September 2021, the Treasury launched the Sovereign Green Bond Framework and second-party opinion. More on page 57.

MBIE report on climate investment

In November 2022, the Ministry of Business, Innovation and Employment (MBIE) published a report that explores the question, 'What would it take to mobilise investment to achieve New Zealand’s climate goals'? It concluded this would take: considerably scaled-up and accelerated investment, especially in adaptation; more data and better tools to inform investment decisions; building on recent policy developments that have provided more clarity about the trajectory of climate policy and greater certainty to support long-term investment decision-making; a wide range of other actions across public and private sectors to overcome system inertia and shift investment patterns.

Update provided by the RBNZ: RBNZ notes that while part c) does not explicitly reference the bank, "we are considering how we can incorporate sustainability objectives into our balance sheet while maintaining our ability to effectively execute our policy objectives. However, there are obstacles for RBNZ factoring in green/sustainable considerations into our sovereign bond portfolios, i.e. where it clashes with monetary policy objectives."

Resiliency

Recommendation 10: Improve prudential regulation over environmental risks.

Monitor systemic climate risks.

a) The RBNZ sets expectations for banks and insurers to assess firm-specific climate and environmental risks through introduction of stress testing which incorporates climate-risk, longer time horizons, and multiple scenarios; encourage developing novel modelling approaches and that RBNZ uses similar approaches to assess its own balance sheet risk.

b) The RBNZ sets expectations for incorporating climate risk assessment into bank and insurer risk management practices and disclosures, following the Government's proposed mandatory climate-risk (TCFD) reporting regime, which will apply to all registered banks and licensed insurers.

Progress

***Update provided by the RBNZ*: RBNZ stress testing**

RBNZ is working to better understand the impacts of climate change on the stability and resilience of the financial system. RBNZ began incorporating climate-related risks into its stress testing of entities in 2021 for both banks and insurers, and in 2022 it undertook a series of sensitivities examining risks to large banks' systemically important loan exposures. Those exercises are informing the RBNZ's climate scenario stress test in 2023, which is currently in development.

2023 will also see RBNZ consult on climate-related risk management guidance for its regulated entities, and a survey to assess the challenges and successes of the industry in understanding, managing, and disclosing climate-related risks as part of increasing engagement on climate change with the sector.

RBNZ also notes that given its role and remit, a more appropriate wording of b) above would be: *The RBNZ sets expectations for incorporating climate-related risk assessment into bank and insurer risk management frameworks, and fully incorporates climate-related risks into its own supervisory framework.*

Reflect long-term risk in capital adequacy requirements.

a) Researchers and the RBNZ investigate the relationship between sustainable lending practices and longer-term risk reduction. If needed, the RBNZ should consider: encouraging industry to build any new evidence into their internal risk models; the issuance of new guidance; and alignment with international capital adequacy recommendations should explicit changes be required.

Progress

Update provided by the RBNZ: RBNZ is monitoring international capital adequacy recommendations. RBNZ is also encouraging entities to incorporate climate-related risks into their internal capital adequacy processes.

Prepare for uninsurable markets.

a) Treasury monitors the availability and uptake of insurance to identify locations and assets at risk of becoming uninsured and works with the sector to develop solutions (including public/private models) to maintain insurance cover while exposure and vulnerability is reduced.

b) That the recommendations of the Resource Management Review be enacted in legislation, so the Government takes a long-term view, regulates and supports the reduction of risks to property and businesses arising from climate change, including banning new developments in locations facing high risks from climate change (with appropriate adaptation/resilience design).

Progress

Update provided by Treasury: By the end of 2022, the Government will have received advice on flood insurance options for residential homes and agreed to next steps. Further implementation measures will depend on the Government's decisions on this advice.

The Treasury has initiated a programme, in collaboration with Toka Tū Ake EQC, to monitor the price and availability of residential property insurance against a range of natural hazards.

Investigate financial impacts of other systemic risks beyond climate change, commencing with biodiversity loss.

a) The RBNZ analyses the exposure of Aotearoa New Zealand's financial system to biodiversity loss, and provides guidance similar to the DNB report. This should draw on connections with DNB and experts from iwi/Māori, DOC, MfE, the BioHeritage National Science Challenge, WWF. The immediate priority should be to draw attention to the relevance of biodiversity loss to financial institutions and corporates in Aotearoa New Zealand, a nation with strong reliance on agricultural systems, tourism and with very strong cultural connections to native biodiversity.

Progress

***Update provided by the RBNZ*:** RBNZ is monitoring developments via its work with the Network for Greening the Financial System (NGFS).

Standards & Pathways

Recommendation 11: Develop standards and pathways that encourage investments which deliver positive environmental, social and economic outcomes.

Roadmap recommendation

1 2 3 4 5 6 7 8 9 10 11

Develop standards for sustainable finance and investment.

a) Sustainable standards (for both social and environmental factors) be created for the purposes of providing objective definitions of sustainable activities in Aotearoa New Zealand for investment, lending and insurance.

b) Sustainable standards be harmonised to leading international standards in the finance sector, including the EU Taxonomy and the CBI standards, but differ where appropriate for the Aotearoa New Zealand context. This should be expanded on to provide a comprehensive standard that aligns with leading practice in Aotearoa New Zealand, particularly with certain fundamental social aspects.

c) The RIAA Responsible Investment Certification (or equivalent) is required to be used by asset owners and fund managers making responsible investment claims.

d) All default KiwiSaver schemes are required to obtain and maintain this RIAA or equivalent certification

Progress

Sustainable Agriculture Finance Initiative (SAFI)

In 2020, banks ASB, ANZ, BNZ, Rabobank and Westpac, and the Ministry for Primary Industries (MPI) joined forces under the umbrella of The Aotearoa Circle to develop the SAFI guidance in order to improve the flow of sustainable finance to New Zealand's agricultural sector. The SAFI guidance draws on domestic and international frameworks and local good farming practice. It is intended to support a framework from the finance sector for integrating sustainability considerations into funding for New Zealand's agricultural sector. Following the release of the guidance, a number of banks report an increase in sustainability-linked loans and products attributable, in part, to the clarity and confidence it provides.

Impact investment guidance

PwC, Toitū Tahua, and the Impact Investing Network have collaborated to develop Guidelines and Principles for Impact Investment in Aotearoa New Zealand. This work sets the stage for an emphasis on robust approaches to metrics, measurement and management of impact within impact investing and more broadly. The principles-based guidance includes a working definition of impact investment in Aotearoa that reflects how Te Ao Māori could shape the concept of 'impact', and clarifies where this approach sits on the responsible investment spectrum - e.g. how it differs from ESG investing.

Government commitment to support the development of definitional tools to encourage greater investment in 'green' projects (National Adaptation Plan Action 5.14)

In its 2022 National Adaptation Plan, the Government committed to support the development of definitional tools to encourage greater investment in 'green' projects. The plan states: "This will support the development of a 'green' taxonomy to identify a common definition of climate and nature-positive investments, which could help guide businesses that are investing in both adaptation and mitigation to protect against greenwashing. If aligned with best practice, it could support greater international investment in Aotearoa New Zealand's climate-resilient projects, including nature-based solutions." This action has a timeline of 2022-2025.

Improve regulatory oversight and enforcement.

a) The FMA, through Part 2 of the Financial Market Conduct Act, provide stronger regulatory oversight on the use of sustainability and responsible investment standards, to ensure 'greenwashing' and misleading claims made by corporates and funds (in relation to financial products) are eliminated.

b) The FMA and Commerce Commission raise awareness around 'greenwashing' in financial products and provide stronger regulatory oversight over false or misleading claims.

Progress

***Update provided by the FMA:* FMA Disclosure Framework for Integrated Financial Products**

The FMA published its expectations of issuers in its Disclosure Framework for Integrated Financial Products in December 2020. This guidance is relevant to issuers of financial products that incorporate non-financial factors.

***Update provided by the FMA:* FMA review**

The FMA reviewed ethical investing claims in managed funds and published the Integrated financial products: Review of managed fund documentation report in July 2022, which focused on a review of disclosure practices for a sample of managed funds (including KiwiSaver funds) that use an 'integrated financial product' label in their name or description.

The following example from the report highlights potentially misleading or confusing content. The report reviewed the use of standards by IFP funds, like the United Nations Principles for Responsible Investment (UNPRI), and found ten of the fourteen funds reviewed, cited being signatories to the UNPRI. Explanations were typically high-level while not necessarily clearly explaining what being a UNPRI signatory meant; four of the IFP funds provided a link to the UNPRI reporting requirements. The FMA's expectation of an IFP fund that cites its membership or association with an external provider as a positive feature for the fund and its investors (whether explicitly or implicitly), is that it should provide clear and accessible disclosure to avoid potentially misleading or confusing an investor (see page 15 of the report).

The FMA says future consideration will be given to the use of enforcement tools within the authority's regulatory remit.

Update provided by the Commerce Commission:

The Commerce Commission considers environmental claims as part of its broader portfolio around credence (truthfulness of claims). Businesses are aware that many consumers want to make environmentally responsible purchasing decisions, and that consumers are heavily reliant on businesses' environmental claims to make quick purchasing decisions. This reliance on trust and the desire for sustainability makes environmental claims an area that is ripe for exploitation. Many consumers find it difficult to check the accuracy of these claims and they may also lack the time or resources to do so.

Progress continued...

Vanessa Horne, Commerce Commission GM Fair Trading, addressed environmental claims in her speech to the Marketing Association on 20 October 2022, noting that consumer and Fair Trading issues relating to environmental claims and sustainability is an area of increasing interest for the Commerce Commission and its counterparts around the world. In addition to providing members of the Marketing Association with guidance and tips for staying on the right side of the Fair Trading Act, Vanessa Horne also directed attendees to the Commerce Commission's published environmental claims guidelines to assist businesses in understanding their obligations when making such claims.

Update provided by the FMA and Commerce Commission: **FMA and Comcom collaboration**

The FMA and Commerce Commission, having regard to their respective mandates, are exploring ways of working together where applicable to raise awareness and address greenwashing in:

- Financial products and services;
- Non-financial products and services; and
- Climate statements.

Liquidity requirements for Kiwisaver.

a) Changes be made to the KiwiSaver structure and incentives such that providers can move from passive investment to active, long-term investments which provide for positive environmental, social and economic outcomes. This would allow KiwiSaver funds to invest in less liquid asset classes with risk/return characteristics aligned to active management and long-term investing.

b) Support this active management approach through the use of a verification/certification standard

Progress

Progress unknown.

Same class exemption for green, social and sustainability linked bonds.

a) The FMA review green, social and sustainable bond same-class exemption requirements and replace them with requirements that ensure sustainable products align to credible and recognised standards.

b) Ensure issuers receive independent verification (or assurance) of compliance when issuing a bond, and that their frameworks, assurance and reporting disclosures are publicly available.

Progress

There is an open dialogue between the Centre and the FMA on same-class exemption for Sustainability-Linked Bonds.

Transform public sector investment to deliver on sustainable outcomes.

a) The public sector facilitate green, social and sustainability bond investment through a range of investment vehicles (such as grants, funds, bonds etc).

b) The public sector establishes and resources impact investment vehicles (e.g. New Zealand Green Investment Finance – NZGIF) where these vehicles have dedicated positive environmental, social and economic outcome mandates. These vehicles will need significant scale if they are to address the substantial adaptation task ahead of the country. Funding should be protected and not be subject to budgetary appropriations to ensure it is enduring and depoliticised.

Progress

Sovereign Green Bond Framework

In September 2021, the Treasury launched the Sovereign Green Bond Framework and second-party opinion. Its expectation is that the Green Bonds will help ensure high-quality government projects with robust climate and environmental outcomes are financed, delivered, monitored and reported on. Alongside Nominal Bonds and Inflation-Indexed Bonds, Green Bonds are expected to be an important and enduring part of the New Zealand Government Bond portfolio. The first $3 billion was issued in November 2022.

Climate Emergency Response Fund

In 2021, the Government announced the establishment of the Climate Emergency Response Fund (CERF), which recycles the proceeds of the Emissions Trading Scheme (ETS) into a dedicated fund. The CERF was set up with $4.5b funding, equivalent to the available cash proceeds from the ETS over the period 2022/23 to 2025/26. In the Budget Economic and Fiscal Update, Treasury has revised up its forecasts of ETS cash proceeds, indicating that another $800m will be available over that same forecast period. As of December 2022, $3.7b had been spent from the fund, with $1.5b remaining.

Government Investment in Decarbonising Industry fund

In May 2022, the Government announced expanded funding of around $650m for the Government Investment in Decarbonising Industry fund (GIDI), coming from the CERF. Through GIDI, the Government partners with major process heat energy users to help cut both emissions and costs. The expanded programme is estimated to deliver projects that will make up around one-sixth or 17% of total emissions reductions required between 2022 and 2025, and around one-third or 35% of reductions required between 2025 and 2030.

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www.sustainablefinance.nz

Contact: Nicola Shepheard
Senior Communications Advisor
nicola@sustainablefinance.nz

Level 12,21 Queen Street, Auckland, 1010, New Zealand