The Aotearoa Circle

Mā te Kaitiakitanga ko te Tōnuitanga
Prosperity Through Guardianship

Sustainable Finance Forum

Roadmap for Action

Final Report - November 2020

Sustainable Finance Forum (SFF) by numbers

22

Month process

1

Interim Report

95%

Stakeholders surveyed felt the current financial system is not sustainable or inclusive

200+

Stakeholders engaged with throughout the Roadmap process

40+

People contributed directly through the Leadership Group or Technical Working Group

2

Hui looking to incorporate iwi/Māori advice and guidance

6

Stakeholder and Government workshops

1

Final Roadmap for Action

Aotearoa New Zealand's Sustainable Finance
Roadmap for Action

Our current financial system is contributing to environmental degradation and entrenching inequality across many measures; we are rapidly consuming finite pools of natural and social capital to produce financial capital. Simply put – this is unsustainable.

We urgently need to re-direct capital to enable a smooth transition and scale-up finance for sustainability solutions. Collectively, we need to change the way investment and lending decisions are made, so that environmental, social and economic factors are integrated, and negative impacts, both now and over the long-term, are avoided.

About this Report

This report, the Roadmap for Action, is the final work product of Aotearoa New Zealand's Sustainable Finance Forum (SFF).

This report represents the collective, and voluntary, efforts of the SFF undertaken from January 2019 to November 2020. It complements and builds on the SFF's Interim Report, which was published in October 2019.

Taking rapid action on this Roadmap for Action strategically positions Aotearoa New Zealand both domestically and internationally, where international markets are rapidly embracing similar recommendations. Implementing this Roadmap for Action will enable Aotearoa New Zealand to maintain our global reputation and market presence.

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Letter from the co-chairs

Ko ngā pae tawhiti whāia kia tata, ko ngā pae tata whakamāua kia tina

“The potential for tomorrow exists in what we do today”

If there is one positive to take out of 2020 it may be that Aotearoa New Zealand has proven its ability to confront global challenges and lead in our response. As a country, we looked at the science behind COVID-19, leaned into the challenges posed and united to prevent a more catastrophic outcome for our nation.

We should not forget the learnings and success of those actions as we turn our attention back to the economic, environmental and social issues that occupied our pre-pandemic thinking. They still loom, as large as they ever did.

It will surprise few people that 95% of New Zealanders who we engaged with in this kōrero believe the current financial system is neither sustainable nor inclusive. Our financial system has proven it is very good at creating financial wealth, but it has done this with less consideration for sustaining the quality and wellbeing of our land, water, climate and people – all critical success factors in our prosperity. This is shown starkly by the recent release of the Planetary Boundaries report for Aotearoa New Zealand, indicating we are exceeding our fair share of the safe operating space related to climate, biodiversity, nutrient use, water use, and forest cover. When these resources have been measured in their use it’s usually been done in current monetary terms rather than considering their future cultural, ecological or societal value.

We know that environmental and social resources consumed today will be just as treasured tomorrow, if not more. However, our financial system today incentivises their immediate use for short-term financial returns and too often the associated environmental and social costs are not properly accounted for and valued, meaning future generations will be left to pick up the tab.

The need to seek greater balance between financial gain today and a more inclusive future for all, where future generations have access to the resources required to meet their needs has never been greater. This report, a Roadmap for Action, sets out to create a more sustainable financial system in Aotearoa New Zealand, one supporting those requirements, by 2030.

The past decade – with the 2016 Paris Agreement as its tent pole – has seen progress in the acknowledgement of the fragility of our natural and human environment. This discussion has been useful, however the next decade must be one of action, rather than of talk.

It can be done. We think hearts and minds are ready for a more systemic change, and there is evidence that understanding is building and action is occurring both here in Aotearoa New Zealand and across the globe.

It is with this knowledge that we ask Business, Government and Civil Society, to join us in supporting the changes required and as outlined in this report.

Within the report we set out principles for thinking about implementation of the Roadmap for Action. These principles are the key to us ultimately changing the way financial decisions are made – which will be the ultimate measure of success of this initiative.

Leadership – all parts of the system must take the lead in changing how they make decisions. While some regulatory change may be necessary, it will not be sufficient to achieve the change we seek – so the private sector cannot sit and wait for the Government to ‘sort it out’.

System change – if there were a single silver bullet – we’d have fired it. The change we seek requires many changes across the system and reconsidering the ‘way we do things’ and ‘the way we value things’ from first principles.

And finally interconnectedness – in the same way we are all interconnected and interdependent (the current crisis has shown us just how much this is true), the recommendations in this Roadmap for Action are also – we need to take action across the priority areas and key enablers identified, to change the way in which decisions are made.

This report represents the outcome of almost two-years’ worth of voluntary commitment and contribution from many individuals across Aotearoa New Zealand and we sincerely thank all of you who have joined us on this journey and shared your time and expertise to bring us to this point.

We look forward to sharing this report with you and actively participating in the changes for a better future for all.

MATT WHINERAY
Co-Chair

KAREN SILK
Co-Chair

Secretariat services provided by

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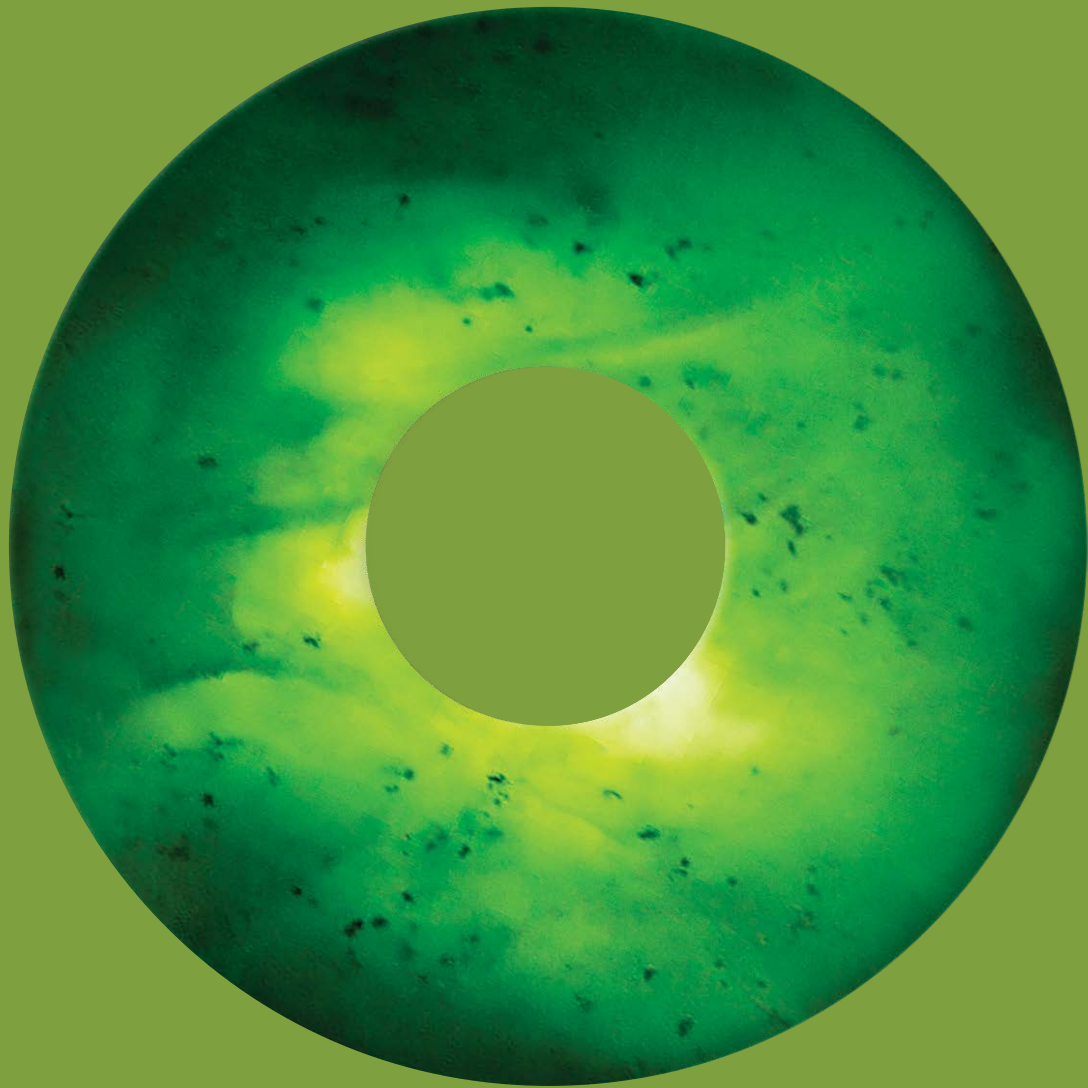
Building a better working world

Executive summary



Sustainable Finance Forum in a nutshell

Our kaupapa

Our kaupapa is to develop a financial system which is sustainable, and to do this by 2030. Our vision is a financial system that is more resilient, inclusive, robust, and agile through the incorporation of environmental, social and economic considerations in financial decisions.

Our kaupapa is to achieve a financial system that:

- Provides for long-term environmental, social and economic prosperity.
- Is anchored in a holistic view where business and finance respects and operate within environmental, human and social constraints and dependencies.
- Serves the needs and long-term inter-generational prosperity of society whilst protecting and enhancing the environment within which we live.
- Moves from a financial system focused on shareholders to a financial system focused on all stakeholders (including our environment and society).
- Preserves, enhances, and restores the planet for future generations.

This Roadmap for Action will help us achieve this kaupapa. This Roadmap for Action recognises the real purpose of the financial system is to serve the long-term needs of people and the planet.

There is no doubt that, on strict economic measures, we have become more prosperous as a nation over the years. However, this has come at a significant cost when considering broader measures of wellbeing, including environmental and social outcomes.

We need to change because the health of our planet, and all who rely on it for survival, is in peril. We need to change the way financial decisions are made to save not only the planet – but also ourselves.

Our recommendations

This Roadmap for Action outlines the steps we all need to make collectively to transform our financial system.

The recommendations have been developed based upon extensive international and domestic research on sustainable finance and have been co-developed by members of the SFF's Leadership Group, Technical Working Group and with input from over 200 individuals. We acknowledge and thank all those who have voluntarily provided their time, experience, advice and guidance to help shape this Roadmap for Action.

Roadmap themes

The SFF's Roadmap for Action covers three key themes: Changing Mindsets, Transforming the Financial System and Financing Transformation. Under these themes we set out 11 Priority Areas where change is required. The Roadmap for Action then provides detailed recommendations to support each area

Changing mindsets

- **Responsibility:** Explicitly require financial system actors to consider, manage and account for environmental and social risks and opportunities and real-world impacts
- **Capability:** Raise capability in sustainable finance through education and training
- **Governance:** Improve public and private sector governance for sustainability

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Transforming the financial system

- **Data:** Improve data and information quality and availability, including through the use of FinTech
- **Disclosure:** Improve and extend external reporting and disclosures
- **Coordination:** Establish and fund a (mandated) agile and independent Centre for Sustainable Finance to oversee and coordinate implementation of the Roadmap
- **Value:** Integrate environmental, social and cultural outcomes into investment decisions to ensure we operate within planetary and societal boundaries
- **Inclusiveness:** Recognise that financial services and products are a utility and create an inclusive financial system
- **Government leadership:** Develop a Whole-of-Government strategy for sustainable finance

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Financing the transformation

- **Resiliency:** Improve prudential regulation over environmental risks
- **Standards and Pathways:** Develop standards and pathways that encourage investments which deliver positive environmental, social and economic outcomes

Implementation principles

Implementing this Roadmap for Action to achieve the desired kaupapa will require a collective response and collective leadership – from the public, private and philanthropic sectors. As consumers, we also have a personal duty to drive change.

We have developed a set of Implementation Principles to support our recommendations. The principles are there to support and remind readers of the overall vision of the SFF and to help readers when they are considering the who, what and how of each recommendation.

1. **Leadership:** Many of these 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.

   We need all financial system actors to play their part. Collectively, Aotearoa New Zealand cannot afford to wait. We cannot afford to wait for regulation change, and even if we did, regulation alone will not create the environment for the transformative level of change we need. Additionally, financial system actors must take into account expected future regulation changes in their decisions today, in order to fulfil their duties. We need strong leaders, those who understand not only the risks but the opportunities and are willing to take advantage of those. We need leaders who link their mana to long-term value creation and take action to drive positive change across all three fronts – economic, environmental and social.

2. **System-change:** Our recommendations are targeted at a whole-of-system change. Our 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. Foundational questions should be asked, such as: do we need to make wholesale changes to simplify requirements and support a clear and effective focus on areas of materiality? Corporate reporting is an excellent example of this, where financial reporting today is complex and covered by disparate forms of policy and regulation. Does our suggested approach focus on the user? Our recommendations around inclusiveness provide an excellent example by ensuring all of society have access to financial services. And will our approach result in negative impacts on the environment being eliminated?

3. **From shareholder to stakeholder capitalism:** Shareholders are critical to capitalism, without their risk capital, organisations could not operate. Organisations' activities can have negative impacts on the environment or society, often in the pursuit of short-term financial return. These impacts are significant regardless of the financial benefit provided to shareholders. We see a sustainable financial system as one where impacts (planet, people and profit) are afforded equal importance. When considering the coverage of our recommendations we believe this stakeholder perspective should drive threshold settings.

4. **Interconnectedness and timely action:** Our 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). One cannot simply choose only the higher priority recommendations to implement. To support implementation, we have identified Key Enablers (e.g. capability, data). Further, we anticipate that as each recommendation is implemented, other recommendations will become easier to implement.

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. We have attempted to highlight these through practical examples (case studies) in all Priority Areas to bring the recommendations to life.

Recommendations overview

The tables overleaf provide an overview of Aotearoa New Zealand's Sustainable Finance Roadmap for Action.

Allocations of accountability and responsibility to lead, are provided against each recommendation.

In preparing this Roadmap for Action, we have endeavoured to capture all those parties who play a role in achieving a sustainable financial system, including privately held financial system actors such as privately held companies and private equity.

For clarity, capital providers include 'for-profit' and 'not-for-profit' banks, credit unions, building societies, private equity companies, asset owners, fund/investment managers and insurance companies.

Capital users include 'for-profit' corporates (both listed and unlisted), iwi/Māori entities, debt and equity holders (both listed and unlisted) as well as 'not-for-profit'. The public sector includes Crown Financial Institutions, central and local government and public benefit entities.

Timing

With regards to timing, for each Priority Area, generally, we have presented our recommendations in priority order, and presented them in three-waves.

- **Wave One** is an immediate action, which financial system actors and/or Government are able to commence immediately. Some may require legislative change (e.g. responsibility), however, when identified as a priority action, they have been included within Wave One. Generally, we expect these to be implemented within one to two years.
- **Wave Two** is a short-term action, where financial system actors and/or Government may need to conduct additional research or industry consultation prior to implementation. Generally, we expect these to be implemented within two to three years.
- **Wave Three** are medium-term actions, which will require more extensive co-development and consultation, as well as legislative change. Generally, we expect these to be implemented within five years.

Reflective of the criticality of challenge, we do not present long-term actions.

Roadmap for implementation

Wave 1
An immediate action, which financial system actors and/or Government are able to commence immediately. Some may require legislative change (e.g. responsibility), however, when identified as a priority action, they have been included within Wave One. Generally, we expect these to be implemented within one to two years.

Wave 2
A short-term action, where financial system actors and/or Government may need to conduct additional research or industry consultation prior to implementation. Generally, we expect these to be implemented within two to three years.

Wave 3
Medium-term actions, which will require more extensive co-development and consultation, as well as legislative change. Generally, we expect these to be implemented within five years.

Printable version

AOTEAROA NEW ZEALAND'S SUSTAINABLE FINANCE - ROADMAP FOR ACTION							
THEME	PRIORITY AREA	RECOMMENDATION OVERVIEW	ACCOUNTABILITY TO LEAD	PRIMARY COVERAGE (RESPONSIBLE FOR OUTCOMES)			IMPACT: PRIORITY ACTION / KEY ENABLER
				CAPITAL PROVIDERS	CAPITAL USERS	PUBLIC SECTOR	
Changing mindsets	1. Responsibility	**Explicitly require financial system actors to consider, manage and account for environmental and social risks and opportunities and real-world impacts.** • Explicitly include the consideration of environmental and social factors within fiduciary duties. • Remove barriers to purpose-led businesses and investment models.	MBIE (all)	√	√	√	Priority Area
	2. Capability	**Raise capability in sustainable finance through education and training.** • Build the sustainable finance capability of professionals and Financial Services Licenses. • Build the sustainability and sustainable finance capability of the public sector, prioritising policymakers initially. • Provide education and training for directors, management and trustees. • Incorporate sustainable finance into the formal education system. • Educate and strengthen the capability of consumers and the public.	Professional bodies DIA / TSY IoD / Capital Users MoE / Universities CFFC	√	√	√	Key Enabler
	3. Governance	**Improve public and private sector governance for sustainability.** • Improve public sector governance and accountability for positive environmental and social outcomes. • Incorporate long-term thinking and the need for positive environmental and social outcomes more explicitly within Governance Codes and purpose statements. • Introduce a Stewardship Code for financial institutions and link this to the licensing requirements of KiwiSaver and managed fund providers..	Ministers FMA, NZX, IOD, Philanthropy NZ Capital providers	√	√	√	Priority Area
Transforming the financial system – embed sustainability into our financial system	4. Data	**Improve data and information quality and availability, including through the use of FinTech.** • Establish clear leadership and accountability for data infrastructure. • Identify key data needs and gaps that would enable quality climate-related financial disclosures. • Establish trusted governance infrastructure to enable open or shared data. • Utilise FinTech solutions to equip the financial system to deliver on environmental and social outcomes.	Stats NZ / Digital Council MfE Stats NZ / Digital Council MBIE	√	√	√	Key Enabler
	5. Disclosure	**Improve and extend external reporting and disclosures.** • Develop consistent foundational metrics and disclosures. • Extend disclosure requirements to asset owners, fund managers, and large private companies . • Improve the approach to, and uptake of, third party verification and assurance. • Use the value of quality reporting to drive positive environmental and social outcomes.	XRB MBIE Capital users Capital users	√	√	√	Priority Area

	6. Coordination	**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.
		  ◦ Confirm the purpose, governance structure and operating principles for the Centre.
		  ◦ Establish clear, measurable and time-bound objectives for the Centre.
			Aotearoa Circle (all)	√	√	√	Key Enabler

	7. Value	**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. • Introduce market mechanisms and fiscal incentives to internalise environmental and social outcomes. • Broaden financial regulation to integrate and encourage positive environmental and social outcomes. • Account for environmental and social outcomes. • Government procurement to include positive environmental and social outcomes.	MBIE / TSY TSY MBIE / TSY TSY / Capital users MBIE	√	√	√	Priority Area
	8. Inclusiveness	**Recognise that financial services and products are a utility and create an inclusive financial system.** • Remove account and transaction fees for customers in vulnerable circumstances. • Provide affordable digital access to all. • Develop guidelines and a better approach to coordination between service providers responding to customers in vulnerable circumstances. • Provide support for innovative impact products and services targeted at underserved groups. • Scale financial mentoring, advocacy and budgeting programmes to all requiring access. • Address age discrimination in the KiwiSaver Scheme.	Capital providers Capital providers WINZ / MSD / MBIE SCAFI (MBIE) CFFC / MSD MBIE	√	√	√	Key Enabler
	9. Government leadership	• **Develop a Whole-of-Government strategy for sustainable finance.** • Develop a Whole-of-Government sustainable finance strategy, capturing Central and Local Government. ◦ Incorporate tikanga principles into finance.	TSY / MBIE / LGNZ TSY			√	Key Enabler
Financing the Transformation	10. Resiliency	**Improve prudential regulation over environmental risks.** • Monitor systemic climate risks. • Reflect long-term risk in capital adequacy requirements. • Prepare for uninsurable markets. • Investigate financial impacts of other systemic risks beyond climate change, commencing with biodiversity loss.	RBNZ Capital providers TSY RBNZ / MfE / Capital providers	√		√	Key Enabler
	11. Standards and pathways	**Develop standards and pathways that encourage investments which deliver positive environmental, social and economic outcomes.** • Develop standards for sustainable finance and investment. • Improve regulatory oversight and enforcement. • Remove barriers to sustainable finance and investment, including liquidity requirements for KiwiSaver, same class exemption for green, social and sustainable bonds, and utilising the public sector investment as a vehicle for transformative change.	SFC / Capital providers FMA TSY, MBIE	√	√	√	Key Enabler

Where to from here?

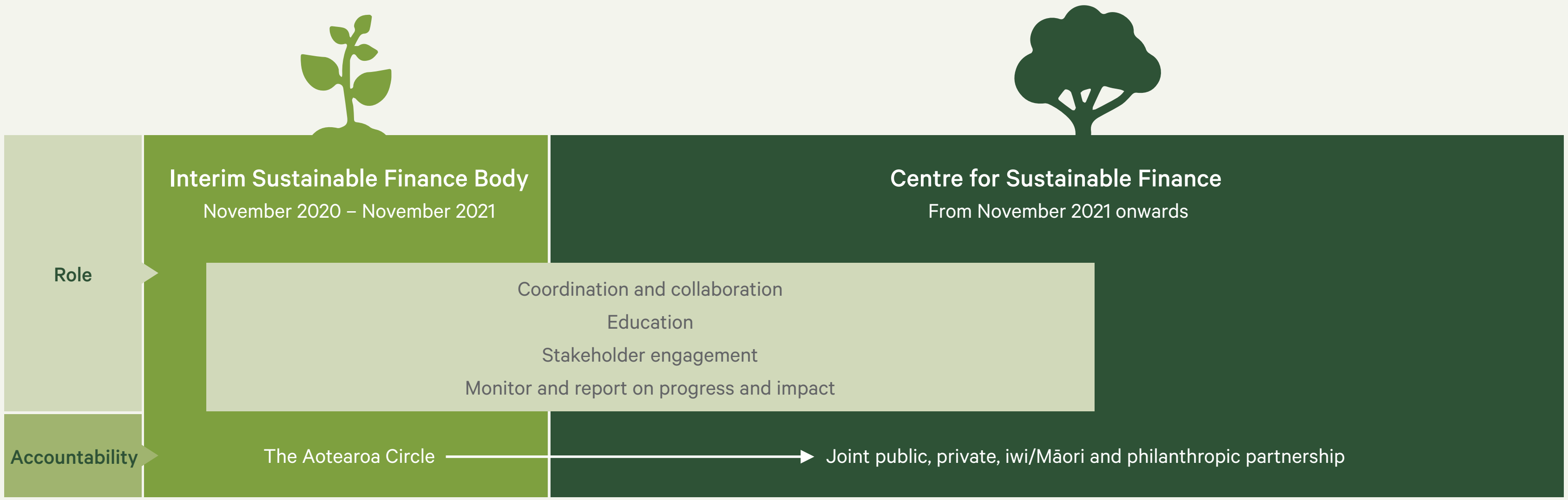
The SFF does not want to lose the momentum Aotearoa New Zealand has gained from this kōrero to date. Whilst this Roadmap for Action serves to provide the strategic intent (the 'why this is important' and the 'what needs to be done'), it was beyond the scope of this voluntary initiative to delve into the 'how' this will be achieved.

Driving the sustainable finance agenda in Aotearoa New Zealand will require ongoing leadership, commitment and funding from capital providers, capital users and the public sector. As we move into the implementation stage, it is clear the existing model needs to change.

The sustainable finance agenda impacts all parties, and in developing this Roadmap it is clear that no single organisation or entity could 'merely slot this into their remit'. Hence our recommendation for an independent and funded Centre for Sustainable Finance. This has been the approach taken in the UK, Canada, and Australia. There are more conversations needed with Government and industry bodies to ensure the Centre is adequately funded and supported. Whilst the Centre is focussed on coordination and collaboration, and not on implementation per se, based upon the nature and scale of the task ahead we estimate that to be effective, the Centre should be funded and resourced to include a mixture of skills.

Desired skills and capabilities include technical understanding of the financial system and sustainability, skills with stakeholder and iwi engagement, research skills, reporting and communication skills, and training skills. We propose a Centre governed by a Board, similar to the role played by the SFF's Leadership Group.

In the intervening timeframe, until the establishment of this new funded entity, we are grateful that the remit of Sustainable Finance will remain with the Aotearoa Circle. To be effective in its care-taker role over the next six to twelve months, the Interim Body will also require adequate funding and resources to initiate follow-up actions that have already been identified. Stronger proactive Government participation in this agenda will also be a critical success factor in the work programme – both in the Interim Body and in the formally established permanent Centre.



Our purpose and journey

About the Sustainable Finance Forum (SFF) and this Roadmap for Action

Our financial system is the engine of our economy; we urgently need to re-direct capital to enable a smooth transition to a sustainable financial system and scale-up finance for sustainability solutions. Collectively, we need to change the way investment and lending decisions are made, so that environmental, social and economic factors are integral and negative impacts, both immediately and over the long-term, are avoided.

The Aotearoa Circle

The Aotearoa Circle is a unique partnership of public and private sector leaders, unified and committed to the pursuit of sustainable prosperity in Aotearoa New Zealand and to reversing the decline of our natural resources. Collectively, this partnership has been formed to promote transformational change.

The Sustainable Finance Forum (SFF)

The Sustainable Finance Forum (SFF) is the founding initiative of the Aotearoa Circle and was formed in January 2019.

The SFF was founded in recognition of the critical role finance plays in achieving and accelerating the transition to a sustainable economy. It acknowledges the need for a financial system that is fit-for-purpose and is inclusive.

The SFF has voluntarily brought together key players in Aotearoa New Zealand's financial system – including Māori leadership, representatives from banks, insurance companies, industry, professional services, civil society, academia, and government – to explore how to re-design our current financial system to meet the challenges as well as capture the opportunities.

We acknowledge and thank all those who have voluntarily provided their time, experience, advice and guidance to help shape this Roadmap for Action.

About the Roadmap for Action

This report, the Roadmap for Action, is the final work product of the SFF. It represents the collective, and voluntary, efforts of the SFF that have been undertaken from January 2019 to November 2020.

This Roadmap for Action outlines the steps we collectively need to make to transform our financial system: from a financial system whose primary focus is (often) on short-term financial wealth creation at the expense of our natural and social capitals, to a financial system which supports long-term social, environmental and economic prosperity. This Roadmap for Action will strategically position Aotearoa New Zealand to access international markets, as well as maintain our global reputation and presence.

A large part of our economic success has been created using natural and social capital, such as water, energy, and labour. Historically, this has created substantial benefits for society with few side-effects. However, these side-effects are growing, as is the realisation that there are constraints on natural and human capital. We now understand that our current use of natural and social resources is not sustainable, and we need to rethink the way we define economic success to ensure that it delivers sustainable intergenerational development and wellbeing.

The recommendations within this Roadmap for Action have been developed based on international and domestic research on sustainable finance and have been co-designed by the members of the Leadership Group and Technical Working Group, with the advice and views of over 200 individuals involved in our hui or workshops.

Given the urgency of the task, and our need to align to international commitments such as the United Nations Sustainable Development Goals (UN SDGs) and the Paris Agreement, our transformational shift needs to occur in the next decade.

Our sustainable finance kaupapa (purpose)

Our current financial system is contributing to environmental degradation and entrenching inequality across many measures; we are rapidly consuming finite pools of natural and social capital to produce financial capital. Simply put – this is unsustainable.

Our kaupapa is to develop a financial system which is sustainable. Collectively, we must all make substantial progress towards this kaupapa by implementing this Roadmap for Action by 2030. A sustainable economy is one that provides for environmental, social and economic prosperity.

This is a financial system that:

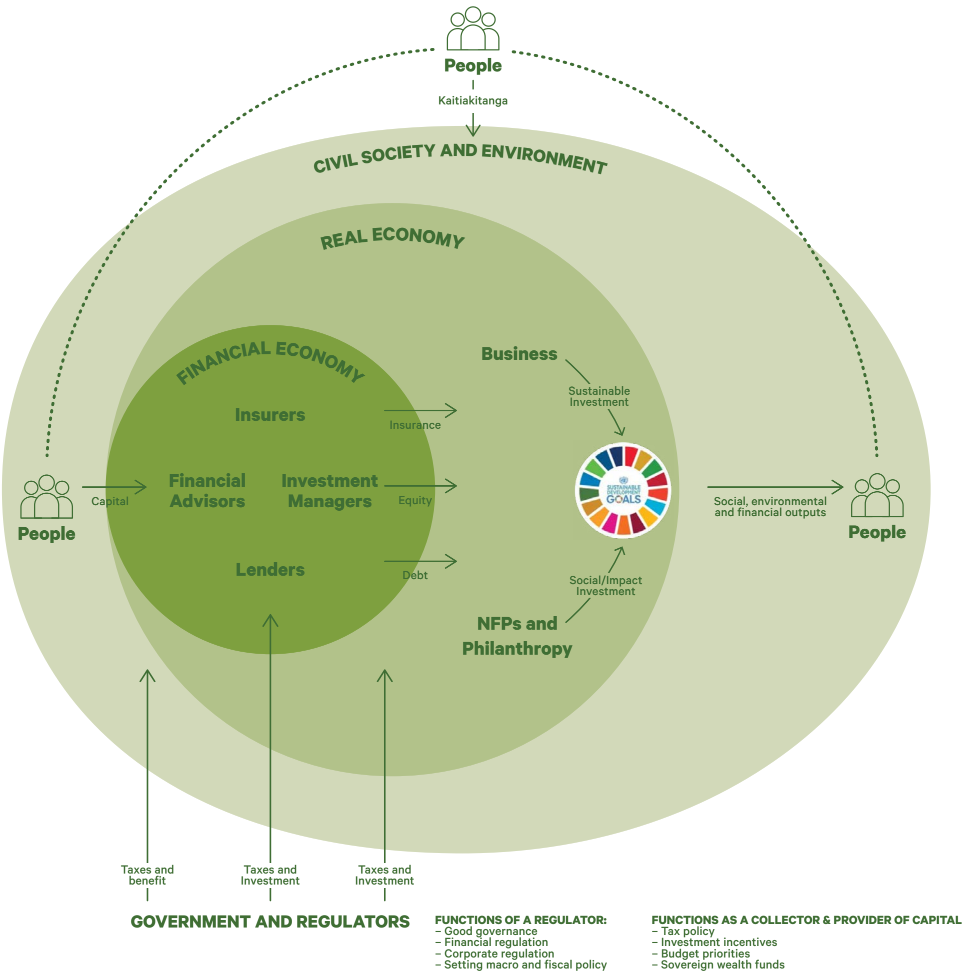
- Is anchored in a holistic view where business and finance respects and operate within environmental, human and social constraints and dependencies.
- Serves the needs and long-term inter-generational prosperity of society whilst protecting and enhancing the environment within which we live.
- Moves from a financial system focused on shareholders to a financial system focused on all stakeholders (including our environment and society).
- Preserves, enhances, and restores the planet for future generations.

We are looking for a financial system that recognises its real purpose is to serve the long-term needs of the people and the planet.

This is a financial system which is more resilient, robust, and agile through the incorporation of environmental, social and economic considerations.

We want to ensure that society has trust and confidence in our financial system and all its actors.

A sustainable financial system is one which ensures organisations align their investment decisions with their agenda for generating environmental, social and economic prosperity.



Why do we need to change?

We need to change because the way financial decisions are made today continues to endanger the health of our planet and our people.

Financial markets and systems, both globally and in Aotearoa New Zealand, are largely still misaligned with the climate change crisis and with other environmental and social issues. There are certainly examples of leading practice to be found and lauded, but these serve mainly to highlight the central problems of capital misallocation, short termism, focus on financial-only outcomes, asset mispricing, and failure to report and account for environmental and social impacts (good as well as bad) of investment decisions.

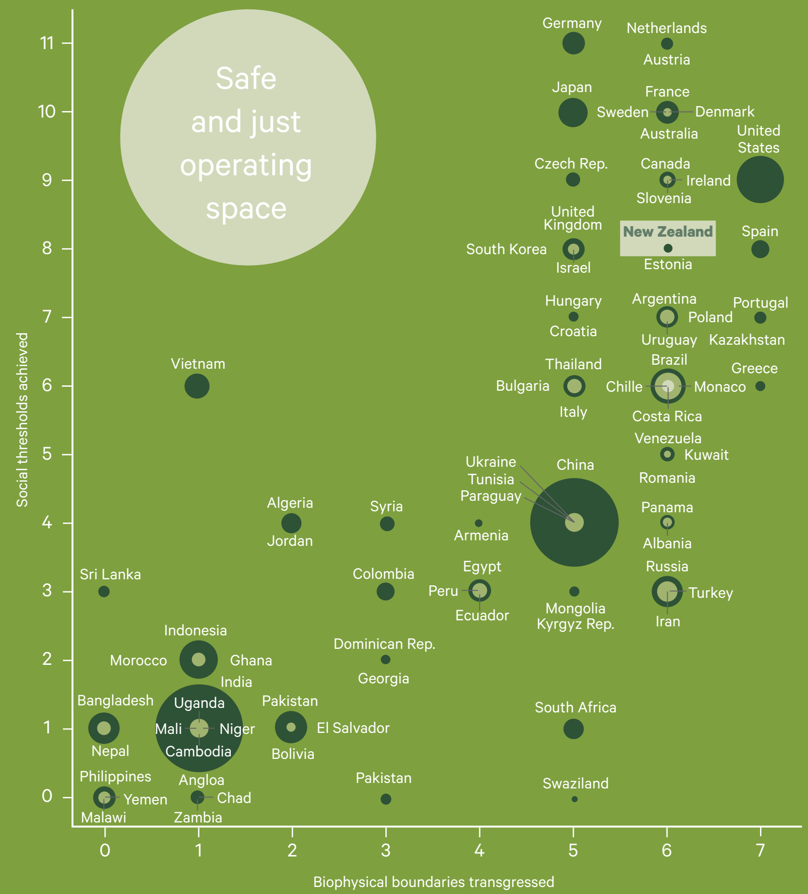
Traditional financial models and economic theories have limitations and do not readily incorporate environmental and social factors, and tend to judge performance with a short-term horizon, with performance valued on growth, risks, and financial returns.
For example:

- Discount rates used in NPV calculations means they heavily favour short-term financial performance.
- Efficient market hypotheses assumes all available information is accounted for in the current market price, providing a rationale for market participants to not consider environmental and social outcomes, as they argue these are already incorporated in the market value. This has the effect of downplaying the importance of both information itself and the impacts.

The has led to economies that have maximised financial outcomes and neglected environmental and/or social outcomes. Research shows no economies (including Aotearoa New Zealand) currently meet all social thresholds while operating within planetary, as referred to as the "Safe and Just Operating Space". Furthermore, the business case for integrating environmental and social outcomes is empirically well-founded in financial literature.[1]

Our Interim Report gave examples of the reasons as to why our financial system needs to change, through our impacts on the climate, water quality and quantity, inequality and human rights. Full details on the reasons to change were provided in our Interim Report.

1. Friede et al (2015), ESG and financial performance: aggregated evidence from more than 2000 empirical studies https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917?mod=article_inline&



Source: O'Neill et al. A good life for all within planetary boundaries (2018). https://doi.org/10.1038/s41893-018-0021-4

Are we alone? International sustainable finance developments

Internationally, sustainable finance is on the agenda of many comparable countries and regions. In fact, many countries and regions (e.g. Europe, UK, Canada and China) are significantly more advanced in the transition towards a sustainable financial system.

Research from the UN PRI has found that across the world's largest 50 economies, there have been over 730 hard and softlaw policy revisions which support, encourage or require investors to consider long-term value drivers such as ESG factors. 96% of these economies have implemented some form of policy to help investors consider sustainability risks, opportunities or outcomes.

Growth of sustainable finance policies internationally

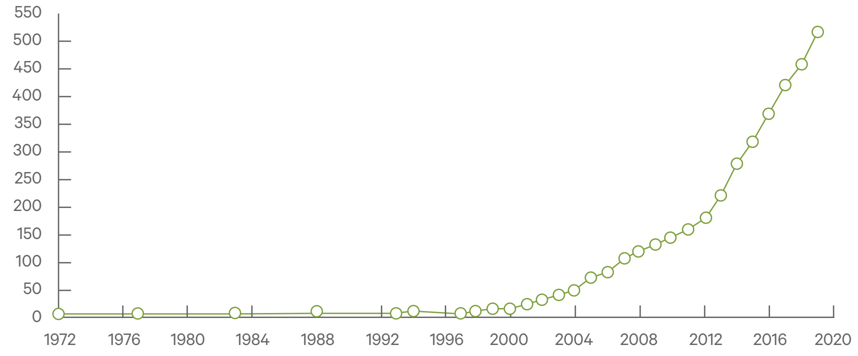
Internationally, various policies, frameworks and tools are available or under development to assist the market and regulators develop a sustainable economy. In response to the growing understanding of and impact of sustainability issues, there has been a continuous upward trend in the number of sustainable policies developed across the world. This has led to a growing market for sustainable investment.

Sustainable finance initiatives around the world

Collaborations similar to the Sustainable Finance Forum have been formed in a number of other countries including:

- **Canada** – Expert Panel on Sustainable Finance: Final Report delivered to government in June 2019.
- **The European Union** – Action Plan on Sustainable Finance adopted in March 2018 and Technical Expert Group on Sustainable Finance established in July 2018.
- **United Kingdom** – Green Finance Taskforce: Accelerating Green Finance Report 2018, and the Green Finance Strategy by HM UK Treasury in 2019.
- **Australia** – The Australian Sustainable Finance Initiative (ASFI): Final report due November 2020.

Number of Responsible Investment-related Policy Instruments over time across the world's 50 largest economies



Source: United Nations' Principles for Responsible Investment's (PRI) Regulation Database (accessed September 2020), https://www.unpri.org/policy/regulation-database

International actions which align to our Roadmap for Action

The recommendations contained in this Roadmap for Action are not novel. Similar initiatives are occurring around the world. In fact, in many areas Aotearoa New Zealand is currently a laggard, and without progress or alignment to the changes occurring elsewhere, Aotearoa New Zealand may find its access to international markets is at risk. From our research on global action, we have provided examples of international initiatives that align with our recommendations.

Recommendation Area	Country	Example of sustainable finance action
Responsibility	United Kingdom	Regulations should clearly state that ESG issues should be taken into account where they are financial material over the timeframe for which fiduciary duties are owed to the beneficiary. Source: UK - Green Finance Taskforce Report (2018)
Capability	Germany	Financial industry executives shall possess a strong understanding of the relationship between sustainable transformation and a company's performance, this can be achieved through mandated sustainable finance training included as part of licence prerequisites for managing directors. Source: Germany - Sustainable Finance Interim Report (2020)
Governance	Germany	Develop corporate management requirements that consider sustainability factors in areas such as remuneration structure, professional competency and expertise development. Source: Germany - Sustainable Finance Interim Report (2020)
Data	Canada	The Canadian Centre for Climate Information and Analytics (C3IA) was established as the authoritative source of climate information and decision analysis. Source: Canada - Canada's Expert Panel on Sustainable Finance Independent Report (2019)
Disclosure	Germany	Expand the scope of sustainability reporting obligations to include all companies, include forward-looking sustainability factors in corporate reporting, and develop standardised outcome measurements to evaluate achievement of sustainability goals. Source: Germany - Sustainable Finance Interim Report (2020)
Coordination	United Kingdom	UK established the Green Finance Institute to strengthen public and private sector collaboration and solidified their position as a global hub for green finance. The institute will foster greater alignment of sector initiatives, create commercial opportunities for finance providers and building green finance capacity. Source: UK - Green Finance Strategy Government Policy (2019)
Account and value	Germany	Design governance and incentive systems such as climate-focused taxes, emissions trading and fees that provide carbon leakage protection. Source: Germany - Sustainable Finance Interim Report (2020)
Inclusiveness	Canada	Canada's National Strategy for Financial Literacy aims to mobilise and engage public, private and non-profit sectors to strengthen the financial literacy of Canadian and empower then to achieve the following goals: manage money and debt wisely, plan and save for the future and prevent and protect against fraud and financial abuse. Source: Canada – National Strategy for Financial Literacy (2014)
Government Leadership	United Kingdom	This Green finance government strategy calls for collective action, defining how government will collaborate with industry, regulators, academia and other sustainable finance institutes to deliver change and accelerate the growth of green finance. Source: UK - Green Finance Strategy Government Policy (2019)
Resiliency	England	A mandatory stress test proposed for the largest banks and insurers to test their resilience to physical and transitional risk associated with different possible climate scenarios and other climate related risks. Source: England - Bank of England BES Discussion Paper - 2019
Standards and Pathways	Europe	Create a classification system (EU Taxonomy) for all financial products that denotes the contribution of each towards sustainability, supported by verification and disclosure regulation (EU Taxonomy Regulation). Source: EU Taxonomy for Sustainable Activities (2020)

What journey did we take to arrive at this Roadmap for Action?

This Roadmap for Action represents the outcome of almost two-years' worth of voluntary commitment and contribution from many individuals across Aotearoa New Zealand.

Our Interim Report, released in October 2019, spelt out clearly the need for change, our desired outcomes, and presented potential pathways Aotearoa New Zealand could adopt in an effort to achieve a financial system which delivers not only economic benefits but also environmental and social benefits. Feedback on the Interim Report was sought from October 2019 to January 2020.

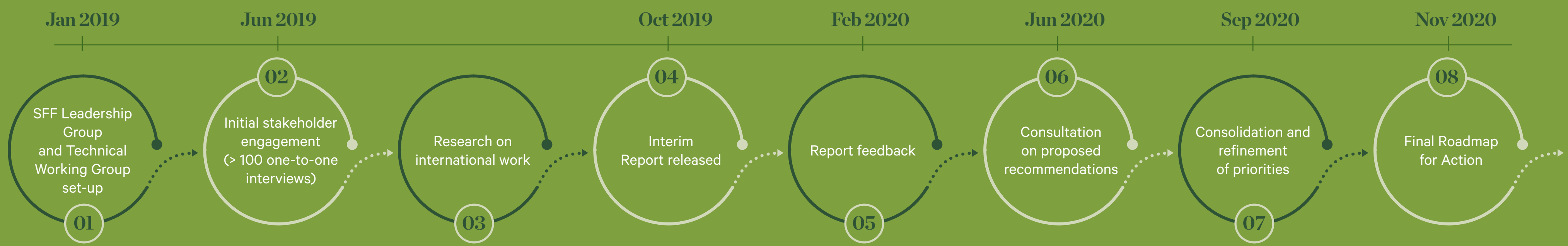
Between February 2020 and July 2020, the SFF, through the voluntary efforts of the Leadership and Technical Working Groups developed an initial draft set of recommendations. These considered the potential pathways presented in the Interim Report as well as feedback provided to the SFF.

From July 2020 to September 2020 these initial draft recommendations were tested with a range of iwi/Māori business leaders and stakeholders representing different groups of the financial system. We tested these recommendations through the following workshops:

- 1 inclusive finance workshop
- 2 iwi/Māori hui
- 3 government workshops
- 1 corporate workshop
- 1 investment manager and capital providers workshop.

The initial draft recommendations were then reviewed and revised based upon the advice and guidance received. Much of the feedback provided sought to strengthen the recommendations. Other feedback suggested recommendations be prioritized. Regardless of the source, the commitment and recognition of to the importance of the kaupapa was unified and strong.

This Final Roadmap for Action represents the collective views and advice of the Leadership Group and Technical Working Group and reflects the advice and feedback of those who attended the various hui and workshops.



Has Covid-19 had an impact on the importance of sustainable finance?

'Despite some questions remaining, the global state-of-the art in science undoubtedly shows: The conservation of intact ecosystems and their characteristic biodiversity can reduce the emergence of infectious diseases. Humanity depends on functioning, diverse ecosystems. By destroying ecosystems we are also destroying our livelihoods, as the coronavirus epidemic is showing. That is why we have to join together and commit to transforming our society to protect our foundations of life'.

The world has been transformed by the COVID-19 crisis. Beyond its tragic human costs and loss of life, the pandemic and ensuing lockdowns have led to a sharp contraction of aggregate demand, supply chain disruptions, loss of revenue for many service sector businesses (e.g. tourism) and unprecedented increases in unemployment. As countries around the world continue to shift in and out of some form of lockdown, and their health systems are pushed to the brink, the realities of this serious global pandemic have been clearly illustrated.

The pandemic has increased the focus, and reinforced the need for, the S of ESG. Domestically, this health crisis has served to highlight many social inequalities such as:

- Those on lower wages, and females, have been more impacted by job losses and have less certainty about when their jobs may return.
- Those on lower wages have less capacity to absorb financial shocks, meaning their wellbeing has been more impacted by COVID-19.
- Those without digital access or capability have been further excluded from accessing essential health and other services.
- Those with essential jobs are the people we rely upon during a pandemic. Yet they receive little compensation above the minimum wage. This has led to the stark realisation that we need to value these people differently and need to re-think our ideas of value.

A survey on the impact of COVID-19 on New Zealanders' financial wellbeing undertaken by the Commission for Financial Capability (CFFC) during lockdown in April 2020 showed 34% of households were in difficulty and 40% were at risk of tipping into hardship. In May-June period, 31% of respondents used their savings to pay for basics, and 24% missed at least one bill or loan payment.[1]

COVID-19 has shown the societal and economic impacts of an acute risk event – a risk that our economies have contributed towards. Professor Josef Settele of the Intergovernmental Platform of Biodiversity and Ecosystem Services (IPBES), recently noted in their Global Assessment Report :

Despite some questions remaining, the global state-of-the art in science undoubtedly shows:

The conservation of intact ecosystems and their characteristic biodiversity can reduce the emergence of infectious diseases. Humanity depends on functioning, diverse ecosystems. By destroying ecosystems we are also destroying our livelihoods, as the coronavirus epidemic is showing. That is why we have to join together and commit to transforming our society to protect our foundations of life'.

The IPBES report highlights the key aspects of such a transformation. What it proposes is no less than a fundamental, system-wide re-organisation, covering technological, economic and social factors, including paradigms, objectives and values. Whilst the scale of these changes lie beyond the scope of this Roadmap, it does provide valuable context for the scale of the challenge.

Pandemics like Covid-19 are not new – in fact, infectious diseases have been consistently listed in the top 10 risks on the World Economic Forum's annual Global Risk Report . Six of the other top 10 risks relate to environmental issues such as climate change, which suggests that COVID-19 offers a glimpse of a new normal in terms of economic and societal disruption.

1: https://cffc.govt.nz/news-and-media/news/covid-19-exposing-new-zealanders-financial-vulnerability

Society's rapid behavioural change to deal with the pandemic has shown how innovative and adaptive we can be. As we seek to recover from the shock with record amounts of fiscal and monetary stimulus, we need to incorporate the lessons of COVID-19, particularly the need for us to build resilience and listen to trusted scientists. With governments stepping in to become some of the largest consumers via various stimulus programs, we have crucial opportunity to serve two purposes – an economic recovery and a climate change crisis simultaneously.

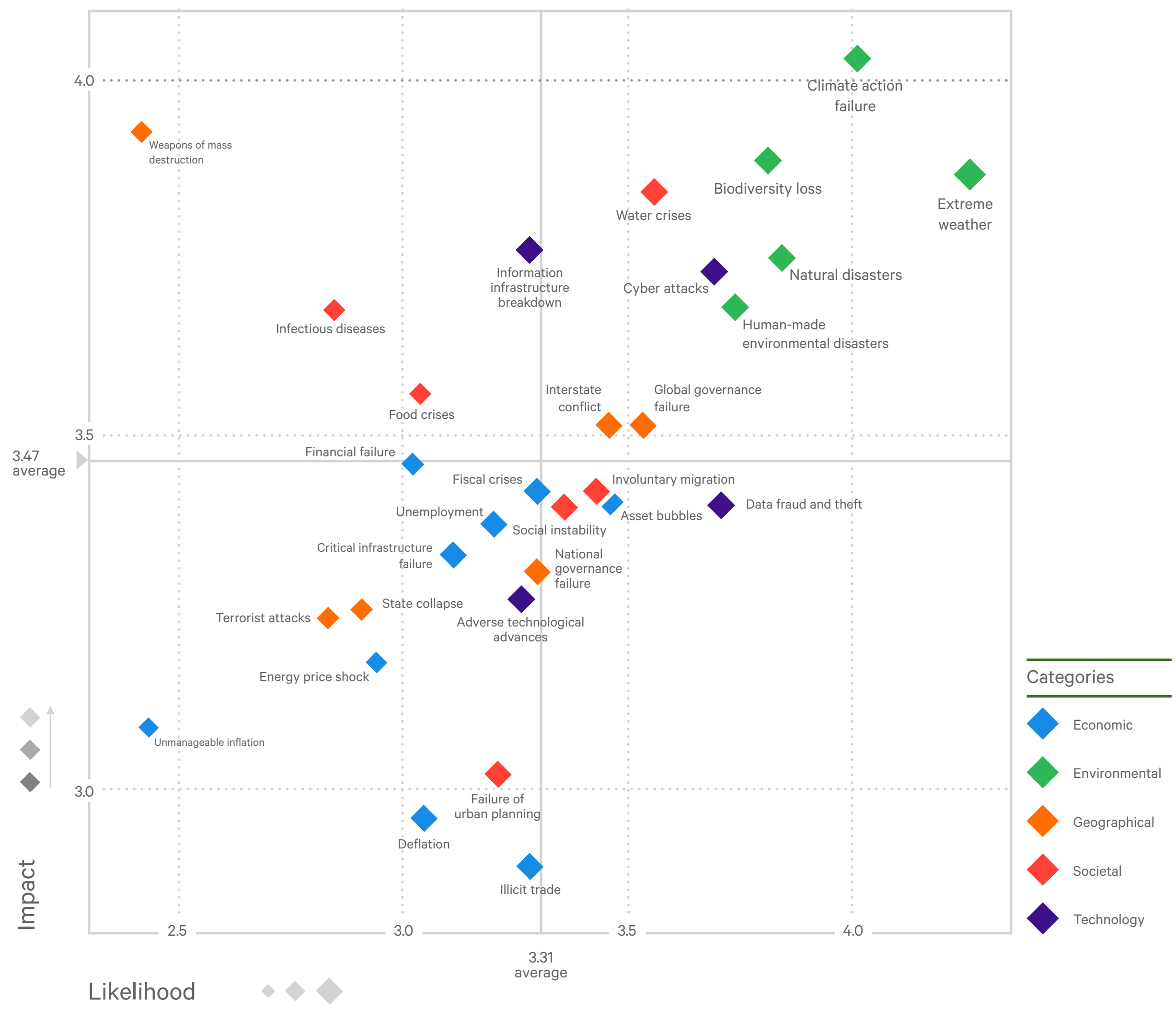
Our recovery needs to look to reduce the social and environmental imbalances that disrupt our society, and make our economy more resilient for the next generation. If the huge stimulus does not simultaneously contribute towards a more resilient, sustainable economy, or worse, sets us back in our response to those issues, there are real risks we leave ourselves further exposed, and we are putting ourselves at a higher risk of funding shortages to achieve such a transformation in future.

> *'While the pandemic and the consequential economic destruction looms large, the existential crisis that is climate change is not going away, and will continue to worsen. Responding to the pandemic in a way which exacerbates the climate crisis, would be a global policy failure.'*
>
> Matt Whineray

Aotearoa New Zealand has demonstrated an ability to lead. As Joseph Stiglitz recently commented , 'New Zealand is leading the world. It led the world in showing how democratic countries could manage the risks of COVID-19. And now, Aotearoa New Zealand is leading the way in showing how we can help manage the risks of climate change' [speaking on the introduction of the mandatory regime on climate-related financial disclosures].

The future resilience of Aotearoa New Zealand depends on our leadership and we must continue to play our part in the global response to both crises.

World Economic Forum – The Global Risks Landscape 2020



Source: Global Risks Report 2020, World Economic Forum, https://www.weforum.org/reports/the-global-risks-report-2020

Aotearoa New Zealand's Sustainable Finance: Roadmap for Action

An overview of our Sustainable Finance Roadmap of Action

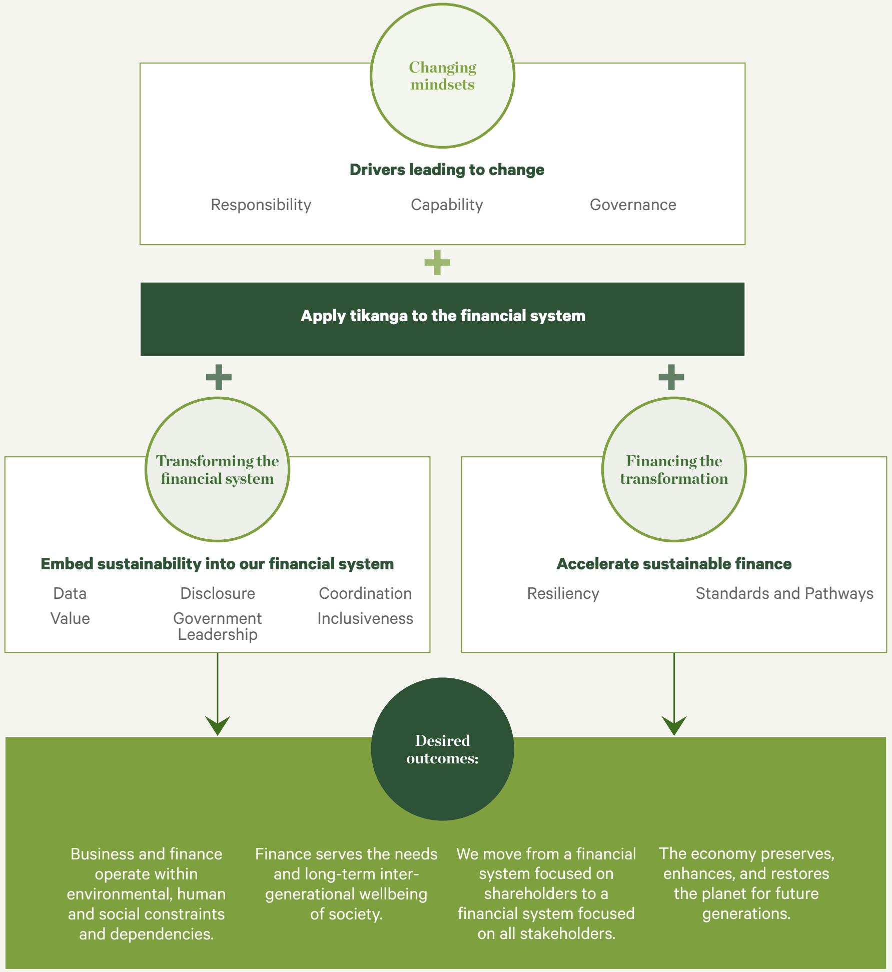
This Roadmap of Action consists of three core areas:

We have developed this Roadmap for Action through significant research and stakeholder engagement.

Through our Interim Report we identified the Focus Areas that require transformation to create a sustainable financial system. This Roadmap for Action builds on this interim work and presents our recommendations on the required changes.

- **Changing Mindsets:** Leaders have significant ability to accelerate the speed of the transition, without waiting for legislative change. The recommendations included in this section are targeted at educating and creating action through leadership.
- **Transforming the finance system:** Changes are needed to the structure and the requirements of the financial system to embed environmental and social outcomes into the current functions of the system and create long-term change. The recommendations in this section set out these structural changes.
- **Financing the transformation:** Given the scientific evidence on the degree and urgency of the required change to our current economic and financial system structure, these recommendations are targeted at accelerating capital towards sustainable investments.

These three core areas are linked together in where they sit within the financial system. Changing mindsets is a precursor for effectively transforming the financial system by 2030. We have also used these three core areas to show where our eleven recommendations sit within the financial system.



Our 11 key recommendations to achieve a sustainable financial system

An overview of our eleven key recommendations to achieve a sustainable financial system is provided overleaf.

Sections 1 to 11 provide more detailed recommendations.

Each of our detailed recommendations is then further supported by technical chapters, which are available by clicking on the relevant link. Each of these chapters provides a description of the current situation. Each chapter also provides selected case studies illustrating how our recommendations have already been practically applied, either domestically or internationally.

We encourage readers to review the case studies – these are great examples of how the changes we seek are already being effected. For each case study, summaries are provided in this Roadmap for Action, however, further details are provided in each individual chapter.

We have developed this Roadmap through significant research and stakeholder engagement. Through our Interim Report we developed the Focus Areas that require transformation to create a sustainable financial system. This Roadmap for Action builds on this interim work and presents our recommendations on the required changes.

Mō tātou, ā, mō kā uri ā muri ake nei — for us and our children after us.

Te Rūnanga o Ngāi Tahu

AOTEAROA NEW ZEALAND'S SUSTAINABLE FINANCE – ROADMAP FOR ACTION

THEME	PRIORITY AREA	RECOMMENDATION OVERVIEW
Changing mindsets – drivers leading to change	1. Responsibility	**Explicitly require financial system actors to consider, manage and account for environmental and social risks and opportunities and real-world impacts.** • Explicitly include the consideration of environmental and social factors within fiduciary duties. • Remove barriers to purpose-led businesses and investment models.
	2. Capability	**Raise capability in sustainable finance through education and training.** • Build the sustainable finance capability of professionals and Financial Services Licenses. • Build the sustainability and sustainable finance capability of the public sector, prioritising policymakers initially. • Provide education and training for directors, management and trustees. • Incorporate sustainable finance into the formal education system. • Educate and strengthen the capability of consumers and the public.
	3. Governance	**Improve public and private sector governance for sustainability.** • Improve public sector governance and accountability for positive environmental and social outcomes. • Incorporate long-term thinking and the need for positive environmental and social outcomes more explicitly within Governance Codes and purpose statements. • Introduce a Stewardship Code for financial institutions and link this to the licensing requirements of KiwiSaver and managed fund providers.
Transforming the financial system – embed sustainability into our financial system	4. Data	**Improve data and information quality and availability, including through the use of FinTech.** • Establish clear leadership and accountability for data infrastructure. • Identify key data needs and gaps that would enable quality climate-related financial disclosures. • Establish trusted governance infrastructure to enable open or shared data. • Utilise FinTech solutions to equip the financial system to deliver on environmental and social outcomes.
	5. Disclosure	**Improve and extend external reporting and disclosures.** • Develop consistent foundational metrics and disclosures. • Extend disclosure requirements to asset owners, fund managers, and large private companies. • Improve the approach to, and uptake of, third party verification and assurance. • Use the value of quality reporting to drive positive environmental and social outcomes.

	6. Coordination	**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.
		    • Confirm the purpose, governance structure and operating principles for the Centre.
		    • Establish clear, measurable and time-bound objectives for the Centre.

	7. Value	**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. • Introduce market mechanisms and fiscal incentives to internalise environmental and social outcomes. • Broaden financial regulation to integrate and encourage positive environmental and social outcomes. • Account for environmental and social outcomes. • Government procurement to include positive environmental and social outcomes.
	8. Inclusiveness	**Recognise that financial services and products are a utility and create an inclusive financial system.** • Remove account and transaction fees for customers in vulnerable circumstances. • Provide affordable digital access to all. • Develop guidelines and a better approach to coordination between service providers responding to customers in vulnerable circumstances. • Provide support for innovative impact products and services targeted at underserved groups. • Scale financial mentoring, advocacy and budgeting programmes to all requiring access. • Address age discrimination in the KiwiSaver Scheme.
	9. Government leadership	• **Develop a Whole-of-Government strategy for sustainable finance.** • Develop a Whole-of-Government sustainable finance strategy, capturing Central and Local Government • Incorporate tikanga principles into finance.
Financing the Transformation	10. Resiliency	**Improve prudential regulation over environmental risks.** • Monitor systemic climate risks. • Reflect long-term risk in capital adequacy requirements. • Prepare for uninsurable markets. • Investigate financial impacts of other systemic risks beyond climate change, commencing with biodiversity loss.
	11. Standards and pathways	**Develop standards and pathways that encourage investments which deliver positive environmental, social and economic outcomes.** • Develop standards for sustainable finance and investment. • Improve regulatory oversight and enforcement. • Remove barriers to sustainable finance and investment, including liquidity requirements for KiwiSaver, same class exemption for green, social and sustainable bonds, and utilising the public sector investment as a vehicle for transformative change.

2030
Sustainable Financial System

1. Changing mindsets: Responsibility

What:

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

Why change is needed:

Recognising that the financial system operates within a broader social and environmental system and that financial decisions have consequences for, and dependencies on, that broader system is a critical and a core aspect of a sustainable financial system. We consider it imperative that businesses and financial entities consider their impacts and dependencies on society and the environment.

Counterfactual:

Directors and Trustees prioritise shareholders and short-term shareholder returns to the detriment of other stakeholders, including the environment and society.

Desired outcomes:

- Fiduciary duty is clear, and it is understood to require consideration of, and active management of environmental and social risks, opportunities and 'real-world' impacts.
- Entities have a clear social purpose.
- Investing for environmental, social and economic benefit is as achievable as investment solely for economic benefit. Barriers to encourage purpose-led businesses and investment models have been removed.

Recommendations in action:

Mandating ESG – the UK Experience

The UK is a global leader in sustainable finance policy. At the forefront of these initiatives has been the Department of Works and Pensions (DWP) introduction of explicit requirements for trustees (of pension schemes), as part of their fiduciary duty, requiring them to take into account environmental and social issues.

To read more about this case study and the detail behind this recommendation, read the Technical Chapter here.

Chapter 1: Responsibility

Responsibility: Detailed recommendations

What:	Topics	Recommendation
Explicitly require financial system actors to consider, manage and account for environmental and social risks and opportunities and real-world impacts.	Explicitly include the consideration of environmental and social factors within fiduciary duties.	a) Initially, 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.
	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) Ākina's recommendations from their report 'Structuring for Impact' be adopted. Including: • Education and support be provided to purpose-led companies on how to effectively achieve being a purpose-led organisation within existing legal structures, thus increasing the level of trust and understanding of their environmental and social outcomes. • Education and support be provided for profit and purpose-led companies on how to measure and report on their impact, thus driving the growth of purpose-led businesses, improved environmental and social outcomes, and understanding of the extent of these outcomes. • Make improvements to legal structures to ensure all businesses have a clear legal structure that enables and supports business and investment directed towards positive environmental and/or social outcomes. This includes recommendations such as variations to the current 'for profit' model to explicitly allow businesses to trade for impact. • Other legal structure options would still be available for traditional charitable, cooperative or purely for-profit entities. This would involve amendments to the Companies Act 1993 and KiwiSaver Act to incorporate opt-in provisions for purpose-led organisations and encourage impact investment. • Provide incentives for purpose-led businesses, with initiatives such as provision of tax incentives; providing KiwiSaver investment incentives (such as the 90/10 scheme in France); and allowing a more beneficial tax treatment for income associated with achieving public good.

2. Changing mindsets: Capability

What:

Raise capability in sustainable finance through education and training.

Why change is needed:

The execution of this Roadmap will require a coherent approach to education and training across professionals, institutions, consumers and society. Education and training is a key enabler in disrupting the status quo and moving the financial system towards sustainability and higher value creation.

Counterfactual:

A lack of understanding of the link between financial decisions impact on the environment and society means the financial sector, companies and consumers continue to make financial decisions that negatively impact our environment and society. Our youth and finance graduates are not educated in sustainability and sustainable finance. They do not understand the links between financial decisions and impacts (positive or negative) on the environment or society.

Desired outcomes:

- Professionals have the awareness, knowledge and skills to incorporate environmental and social factors into investment decisions. They know how financial decisions can impact environmental and social outcomes.
- Financial advisors actively provide clients with options to integrate sustainability within their investments.
- The public sector understands why, and knows how to, incorporate positive environmental and social outcomes into Government investment and procurement decisions.
- Directors fully incorporate long-term thinking, and positive environmental, social and financial prosperity into company strategy and governance decisions.
- Youth have the right financial skills for the future and understand how to incorporate environmental and social outcomes into their financial decision-making.
- The public are educated on the impact of financial decisions and demand for sustainable financial products increases. Consumers ultimately consume less.

Recommendations in action:

Integrating sustainability into the Code of Professional Conduct for Financial Advisers

A Code for Professional Conduct for Financial Advisers offering advice to retail clients. We have set out the three standards where sustainability could be explicitly incorporated.

Mindful Money: Empowering consumers to make sound choices on Sustainable Finance

Mindful Money was developed to inform consumers on sustainable investment products. It aims to provide transparency and choice and gives consumers the power to make informed investment choices.

To read more about these case studies and the detail behind this recommendation, read the Technical Chapter here.

Chapter 2: Capability

Capability: Detailed recommendations

What:	Topics	Recommendation
Raise capability in sustainable finance through education and training.	Build the sustainable finance capability of professionals.	**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 (RSC), 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. e) Finance sector organisations implement training on basic sustainable finance concepts and tools for key staff in their organisations.
	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.

Capability: Detailed recommendations

What:	Topics	Recommendation
Raise capability in sustainable finance through education and training.	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. The programme should aim to: • Improve the understanding around the purpose of finance and the structure of a financial system that delivers on environmental, economic and social outcomes. The scope of this should be informed by the workstream to integrate tikanga principles into the financial system. • Assess why policies and regulations around sustainable finance are needing to rapidly evolve and analyse the opportunities this creates for Aotearoa New Zealand. • Analyse the role of public policy in encouraging investments that provide environmental and social outcomes, including examination of successful and unsuccessful international policies. • Review what investing for impact is and how to deliver on positive environmental and social outcomes whilst maintaining financial outcomes.
	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.
	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** 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.
	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 take 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. b) The CFFC consider the various aspects of sustainability and sustainable finance and include these in their programmes and resources.

3. Changing mindsets: Governance

What:

Improve public and private sector governance for sustainability.

Why change is needed:

To consider environmental and social outcomes alongside financial outcomes in investment decision-making, governance and accountability of these aspects should be on-par with that of financial issues. Currently, governance of these outcomes is significantly weaker than for financial matters. Focus is on long-term value creation across economic, social and environmental outcomes.

Counterfactual:

- Those tasked with governance view environmental and social outcomes as a 'nice to have' rather than a must have.
- Discussions at the Board table primarily focus on short-term financial returns.
- Climate change, and other important issues are not integrated into business strategy.
- The views of stakeholders are not considered and are ignored.

Desired outcomes:

- Public sector governance includes clear mandates for environmental, social and economic outcomes. Ownership and accountability for the UN's Sustainable Development Goals is clear.
- The purpose and culture of business supports inter-generational environmental, social and economic prosperity and active governance supports this.
- Fund managers and asset owners are active stewards of positive environmental, social and economic outcomes.

Recommendations in action:

The importance of social purpose

In 2019, America's top business leaders, formally acknowledged the need to define a clear social purpose. Locally, feedback from iwi/Māori re-iterated the importance. 'Social purpose is the starting point for everything and needs to be ingrained in organisational culture'.

Linking long-term value and remuneration

Mercury has developed its integrated framework to support long-term value creation, which consists of five pillars covering financial, social and environmental elements. Linking the framework to remuneration was a priority to ensure alignment of decision making.

To read more about these case studies and the detail behind this recommendation, read the Technical Chapter here.

Chapter 3: Governance

Governance: Detailed recommendations

What:	Topics	Recommendation
Improve public and private sector governance for sustainability.	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, RBNZ, the FMA and the 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 SDG (applicable to Aotearoa New Zealand) and achieving SDG goals is clearly included within each entity's mandate.
	Incorporate long-term thinking and the need for positive environmental and social purpose and outcomes more explicitly included within Governance Codes and purpose statements.	a) We support 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)).
	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.

4. Transforming the financial system: Data

What:

Improve data and information availability using FinTech Improve data and information quality and availability, including through the use of FinTech.

Why change is needed:

A sustainable financial system requires data and information about environmental and social impact to enable these factors to be at heart of financial decision-making. Having accurate, comparable, and available data and information is considered fundamental to the success of the financial system transformation.

Counterfactual:

The availability of environmental and social data is a significant gap or is cost prohibitive to obtain. This reduces the ability to make decisions that factor in sustainable outcomes.

Desired outcomes:

- A clear owner is identified, one tasked with ensuring quality environmental and social data and information is available to enable financial decisions to incorporate these factors.
- Enable private and public sector support for data to enable quality climate-related financial disclosures.
- Aotearoa New Zealand has a trusted data and information governance infrastructure for environmental, social and economic data.
- Aotearoa New Zealand embraces FinTech to enable the financial system to more easily deliver on environmental and social outcomes.

Recommendations in action:

CoGo – Sustainable & ethical living made easy

CoGo is a New Zealand based Fintech that has created a free to use app utilising open banking technology. The app allows you to understand and improve your environmental and social impact based on your spending habits.

Icebreaker One's approach to catalysing 'open data' sectors

Icebreaker One has worked closely with the UK financial sector, playing a critical role demonstrating how complex data challenges can be overcome through effective collaboration, good data mapping and use of existing tools like pre-emptive licensing.

To read more about these case studies and the detail behind this recommendation, read the Technical Chapter here.

Chapter 4: Data

Data: Detailed recommendations

What:	Topics	Recommendation
Improve data and information availability using FinTech Improve data and information quality and availability, including through the use of FinTech.	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.
	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.
	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. c) This data infrastructure then extends more broadly to other environmental and social data.
	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.

5. Transforming the financial system: Disclosure

What:

Improve and extend external reporting and disclosures.

Why change is needed:

There are no mandatory (corporate or other) sustainability reporting requirements or standards in Aotearoa New Zealand and non-financial assurance is seen as leading practice rather than the norm. This means non-financial reporting is currently inconsistent or incomparable and often does not provide credible and useful information of sufficient depth and breadth to investors and wider stakeholders, who need to better value these intangible assets and risks.

Counterfactual:

The availability of environmental and social data has significant gaps or is cost prohibitive to obtain. This reduces the ability to make decisions that factor in sustainable outcomes.

Desired outcomes:

- Environmental and social performance disclosures are on a par with those provided for financial disclosures.
- Environmental and social performance disclosure requirements are extended to reflect the growing value all stakeholders provide.
- Disclosures are comparable, unbiased, accurate, and externally assured.
- Reporting is no longer seen as a 'compliance' exercise, but is used instead to drive positive environmental and social outcomes.

Recommendations in action:

Measuring stakeholder capitalism

The World Economic Forum released a White Paper on a framework of common metrics and consistent reporting of sustainable value creation, which contains 21 core disclosures with a balance of risk management and forward-looking strategic topics. This provides a transparent and comparable way to better measure intangible value.

Principles for reporting on impact

Moving towards reporting on outcomes, rather than business metrics, provides a clearer link to value creation. Principles, prepared by the Impact Management Project (IMP's), provide a consistent framework for reporting on environmental and social outcomes.

To read more about these case studies and the detail behind this recommendation, read the Technical Chapter here.

Chapter 5: Disclosure

Disclosure: Detailed recommendations

What:	Topics	Recommendation
Improve and extend external reporting and disclosures.	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.
	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.

Disclosure: Detailed recommendations

What:	Topics	Recommendation
Improve and extend external reporting and disclosures.	Improve the approach to, and uptake of, third party verification and assurance.	a) Initially, the 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. b) 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. c) 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.
	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.

6. Transforming the financial system: Coordination

What:

Establish and fund a (mandated) agile and independent Centre for Sustainable Finance to oversee and coordinate implementation of the recommendations.

Why change is needed:

The role of the Aotearoa Circle's voluntary Sustainable Finance Forum will draw to a close with the publication of this Roadmap. In developing this Roadmap it has become clear that driving this agenda forward will require a step change around resourcing and funding to secure the successful adoption and implementation of this Roadmap for Action.

Counterfactual:

- Momentum is lost after the release of the SFF Roadmap. Recommendations are not implemented. There is no clear leadership within the private and public sectors.
- Recommendations which are implemented are undertaken in an uncoordinated or ineffective manner, and do not achieve the desired outcome.

Desired outcomes:

A Centre for Sustainable Finance is established with sufficient funding and capabilities, supported by a Board providing broad representation of participants across the financial system.

The Centre reports periodically on progress towards Aotearoa New Zealand's implementation of the Roadmap for Action and notes where further actions are required.

Recommendations in action:

The Green Finance Institute (GFI) – building partnerships to accelerate sustainable finance

The United Kingdom's GFI, launched in July 2019, was a response to the first recommendation of the Green Finance Taskforce Report. The GFI's overarching mission is to accelerate the domestic and global transition to a clean, resilient and environmentally sustainable economy through accelerating UK leadership in green (sustainable) finance.

To read more about this case study and the detail behind this recommendation, read the Technical Chapter here.

Chapter 6: Coordination

Coordination: Detailed recommendations

What:	Topics	Recommendation
Establish and fund a (mandated) agile and independent Centre for Sustainable Finance to oversee and coordinate implementation of the recommendations.	An agile and independent Centre for Sustainable Finance be established to oversee and coordinate implementation of the Roadmap for Action and its recommendations.	a) Define accountability and responsibility for this Centre and secure adequate funding. • Confirm which option for delivery and funding in the short-and medium terms would deliver the desired results. b) Confirm the purpose, governance structure and operating principles for the Centre. • Establish a clear sense of purpose, supported by a transparent governance structure and operating principles. c) 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.

7. Transforming the financial system: Value

What:

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

Why change is needed:

Long-term economic development cannot undermine Aotearoa New Zealand's natural capital; growth based on eroding our shared environment cannot be sustained. Solutions to environmental problems must be economically sustainable, just as solutions to economic problems must be environmentally sustainable. A sustainable financial system needs to deliver not only positive economic outcomes but also positive environmental and social outcomes. We need to create the conditions where investments which create more harm than create positive benefits across these three outcomes become unattractive. We need to create a world where the financial system fully internalises the environmental and social costs of their actions.

Counterfactual:

Aotearoa New Zealand's natural and social capital continues to be under threat and decline, as it is converted to financial capital without being properly valued.

Desired outcomes:

- Environmental and social inputs are valued in the same way financial inputs are valued.
- We operate within our planetary boundary.
- We reverse the decline on the state of our environment.
- We halt, and reverse, the effects of climate change.
- We pay for our impacts through effective levies and taxes. These levies and taxes change behaviours and change the way investment decisions are made.
- Environmental and social outcomes are fully integrated within (financial) accounts.
- Government procurement standards and guidelines include explicit requirements for environmental, social and economic returns.

Recommendations in action:

Tā ngā mea katoa he whakapapa (Understanding externalities) – TAHITO Ltd

TAHITO are rigorously assessing companies on their alignment with their kaupapa values and principles. It provides a framework for understanding ethical and sustainable behaviours and values. It is currently applied to the TAHITO Te Tai ō Rehua Fund. The fund performance is 3.5% above the Trans-Tasman benchmark, debunking the myth that impactful investing means accepting a lesser return.

Te Ara Putanga – Our Outcomes Pathway – Parininihi ki Waitotara Incorporation (PKW)

The Kaupapa Evaluation Tool has enabled PKW to assess outcomes based on tikanga to ensure core strategies are being followed in investment decisions. The tool has been in use for nearly eight years.

Valuing the benefits of sustainable housing

Whilst firm foundations are being laid to improve Aotearoa New Zealand housing quality and sustainability, great challenges and opportunities persist for making 'green' building mainstream. Over 1 million homes are considered 'poorly performing' – contributing to increased incidence of respiratory illness and over 50% of the built environment's total greenhouse gas (GHG) emissions.

To read more about these case studies and the detail behind this recommendation, read the Technical Chapter here.

Chapter 7: Value

Value: Detailed recommendations

What:	Topics	Recommendation
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) We engage in a conversation where we define value in more than financial terms. This could be linked to a korero to apply a tikanga lens to the financial system (refer to Recommendation 10).
	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.
	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.
	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.
	Government procurement to include environmental and social outcomes.	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.

8. Transforming the financial system: Inclusiveness

What:

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

Why change is needed:

A sustainable financial system should be a utility and available to all. Expanding access to the financial system to those currently excluded, will significantly improve the financial and wellbeing outcomes for those people and their families and local communities.

Counterfactual:

Financial sector profitability is favoured above inclusiveness leading to exclusions from the financial system. This leads to further deprivation, as many people in vulnerable circumstances are not able to access financial products and services or identify support channels. As technology accelerates, those that are not digitally literate will become further excluded.

Desired outcomes:

- The cost of using a mainstream bank or financial services provider does not exclude vulnerable customers from accessing these products and services.
- Customers are freely able to access support services, either digitally or in-person.
- There is better coordination of programmes responding to vulnerable customers.
- There are innovative products and services for those not able to access mainstream banks, and these products and services are fair, just and inclusive.
- Financial mentors are valued and appreciated, with training and support provided to support them.
- The KiwiSaver Act continues with financial contributions to those working after the age of 65.

Recommendations in action:

The missing middle: Prometheus Finance

Prometheus was a profitable microfinance entity that lent to customers which met its credit and ethical standards. To meet higher capital adequacy requirements for non-bank deposit takers, it required additional capital. The business model was unfamiliar in Aotearoa New Zealand – not being a bank or a charity and so it failed to raise the needed capital. This is a similar issue for other entities trying to fill the service gap between commercial entity and charity.

To read more about this case studi and the detail behind this recommendation, r ead the Technical Chapter here.

Chapter 8: Inclusiveness

Inclusiveness: Detailed recommendations

What:	Topics	Recommendation
Recognise that financial services and products are a utility and create an inclusive financial system.	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.
	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).
	Develop guidelines and develop 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.
	Provide support for innovative impact products and services targeted at underserved groups.	a) Increase Government funding for pilot microfinance 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.
	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.
	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.

9. Transforming the financial system: Government Leadership

What:

Develop a Whole-of-Government sustainable finance strategy.

Why change is needed:

Government leadership will be critical in ensuring the financial system is changed to deliver on environmental, social and economic outcomes. Leadership will also be critical in halting the decline of our natural resources, and reversing the decline of crises such as climate change and biodiversity loss. The Government is a major consumer, investor and regulator and therefore has a significant role in transforming the financial system.

Counterfactual:

- Government does not take a coordinated approach to changing the financial system.
- Government does not appreciate the link between the financial system and environmental and social outcomes.
- Critical recommendations which rely on Government (e.g. fiduciary duties legislation) are not acted upon, or are not acted upon within a timely manner.
- The state of our environment continues to decline.
- There is no Government leadership.

Desired outcomes:

- There is strong, clear and decisive Government leadership.
- Sustainability and sustainable finance are included within Government mandates and each Ministry/Department takes accountability and responsibility for change.
- We transition to a low-carbon, climate resilient economy in a coordinated manner.
- Government uses its role as policy maker to ensure environmental and social outcomes are explicit within financial regulations.
- Government appreciates the link between the financial system and environmental and social outcomes.
- Critical recommendations which rely on Government (e.g. fiduciary duties legislation) are acted upon.
- The state of our environment improves and we operate within planetary boundaries.

Recommendations in action:

The UK Government's Green Finance Strategy

UK Government is looking to be a leader in sustainable finance. Over the last decade the UK Government has led global initiatives to accelerate action on sustainability topics. In 2019, the UK's Department for Business, Energy and Industrial Strategy released the UK Government's Green Finance.

Government entity sustainable financing frameworks

Kāinga Ora and Auckland Council have sustainability financing frameworks relating to raising capital which is aligned to climate change commitments and the Living Standards Framework.

To read more about these case studies and the detail behind this recommendation, read the Technical Chapter here.

Chapter 9: Government Leadership

Government Leadership: Detailed recommendations

What:	Topics	Recommendation
Develop a Whole-of-Government sustainable finance strategy.	Develop a Government strategy on sustainable finance.	a) Government develops a strategy on sustainable finance to identify its priorities which will help to inform the development of a coordinated work programme, and further position the Government as a global leader on sustainable finance.
	Key suggested areas of focus for the strategy.	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 the Reserve Bank are more prepared to deliver on sustainability outcomes through response measures such as asset purchasing programs.
	Incorporate tikanga principles into finance.	a) In developing this strategy, it needs to be co-developed with iwi/Māori in order to begin to embed the principles and approaches from tikanga into the financial system. This also needs to be aligned with the principles of Te Tiriti o Waitangi.

10. Financing the transformation: Resiliency

What:

Improve prudential regulation over environmental risks.

Why change is needed:

The financial system is facing catastrophic risks from climate change and declining biodiversity. These risks are characterised by non-linearity and fat-tail distributions, which means that financial regulation needs new tools it uses to address this systemic risk.

Counterfactual:

Significant environmental risks are not monitored or regulated across the financial sector. This leads to risks propagating unabated, increasing the potential of catastrophic impacts to our economy and society.

Desired outcomes:

- Systemic environmental risks, such as climate change and biodiversity loss, are assessed and incorporated into capital adequacy requirements.
- Climate, and other environmental risks, are incorporated within Capital Providers risk management practices and disclosures.
- The RBNZ and Capital Providers recognise and factor in the financial impacts of biodiversity loss, ultimately leading to a reverse of current trends.

Recommendations in action:

Bank of England – Mandatory climate change stress testing

Bank of England has proposed a novel framework for gathering information on the size of the potential impact to the financial sector from climate change, in its mandatory biennial exploratory scenario (BES).
This will require counterparty-level analysis of physical and transition risks, across three different climate scenarios and over a 30 year timeframe.

To read more about this case study and the detail behind this recommendation, read the Technical Chapter here.

Chapter 10: Resiliency

Resiliency: Detailed recommendations

What:	Topics	Recommendation
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.
	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.
	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).
	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.

11. Financing the transformation: Standards and Pathways

What:

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

Why change is needed:

A range of barriers exist that stifle both the supply and demand side for sustainable investment. Providers of capital need to be confident that where they are choosing products because of their sustainability criteria, those criteria are being met. Suppliers of sustainable projects need pathways to capital that are not cost prohibitive and encourage demand.

Counterfactual:

Significant volumes of sustainable projects are not funded as they do not meet traditional risk/return requirements or encounter prohibitive cost barriers. Markets lack integrity due to concerns about greenwashing, which reduces demand and transformative nature of these markets.

Default KiwiSaver Scheme providers are measured by the cost of providing the investment and short-term financial returns. Active management which provides for positive environmental and social outcomes, is not recognised or rewarded.

Desired outcomes:

- There are recognised standards for products and services, including for bonds and investment schemes.
- Consumers can be certain and confident that funds labeled as 'responsible' or 'ethical' are operating as such.
- There is stronger regulatory oversight over sustainability standards to ensure misleading or 'greenwashing' claims are addressed.
- KiwiSaver fund providers are recognised and encouraged to adopt active management approaches which deliver positive environmental, social and economic outcomes.
- Issuing a green, social, or sustainability bond is as easy and simple as issuing a vanilla bond.
- The public sector leads by example and invests in green, social and sustainability bonds, and establishes and adequately resources impact investment vehicles.

Recommendations in action:

Sustainable Agriculture Finance Initiative

The Sustainable Agriculture Finance Initiative (SAFI) is an initiative of The Aotearoa Circle, driven by five major banks and supported by the Ministry for Primary Industries. The aim of SAFI is to develop a definition for sustainable agriculture which aligns with international financial definitions and existing local standards. This could be used for identifying "green" financial products internationally.

Achieving and demonstrating best practice in Responsible Investment

Responsible Investment Association Australasia (RIAA) run a responsible investment certification programme. Certification is applied to five categories, namely Product (including KiwiSaver), Investment Management Service, Superfund Whole of Fund, Financial Adviser & Financial Adviser Group. To achieve certification, participants must meet strict responsible investment criteria

To read more about these case studies and the detail behind this recommendation, read the Technical Chapter here.

Chapter 11: Standards and Pathways

Standards and Pathways: Detailed recommendations

What:	Topics	Recommendation
Develop standards and pathways that encourage investments which deliver positive environmental, social and economic outcomes.	Define sustainable financial products and investments.	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.
	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.
	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.
	Same class exemption for green, social and sustainable 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.
	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.

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Co-chairs

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Leadership Group

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