

APRIL 2024

Consultation: Proposed exemption for certain green, social, sustainability and sustainability-linked bonds

About this consultation

The Financial Markets Authority – Te Mana Tātai Hokohoko (**FMA**) is considering a class exemption to provide relief from disclosure requirements for certain green, social, sustainable, and sustainability-linked (**GSSS**) bonds on a similar basis to the same class exclusion in clause 19 of Schedule 1 of the Financial Markets Conduct Act 2013 (**FMC Act**).

If granted, the exemption would allow issuers to make offers of bonds that have identical rights, privileges, limitations and conditions to existing quoted bonds, except for a different interest rate, redemption date, and GSSS status, without the usual disclosure requirements in Part 3 of the FMC Act that require preparing a Product Disclosure Statement (**PDS**). The exemption would be subject to conditions, including that the issuer must make available to investors information about the GSSS features of the bond.

This may help to reduce regulatory burden on issuers, and increase opportunities for New Zealanders to invest in products that align with their values and/or deliver non-financial benefits.

We welcome your feedback on the exemption proposal in response to the specific questions in this paper, as well as any other general comments.

Next steps

Please use the feedback form at the end of this document to submit your feedback. **Submissions close at 5pm on 30 April.** After this date, we will consider all submissions, finalise policy proposals and, if any exemptions are granted, work to get them in place.

This consultation is for listed issuers who may wish to issue green, social, sustainability or sustainability-linked (GSSS) bonds, as well as investors and any other interested parties.

It seeks feedback on proposed exemptions from disclosure requirements for certain GSSS bonds that have similar terms to existing quoted financial products.

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Overview of GSSS bonds

'Green', 'social', 'sustainability', and 'sustainability-linked' are labels commonly applied to bonds that have a component that offers investors a non-financial benefit, relating to advertised environmentally or socially responsible aspects of the product. These bonds are referred to collectively in this document as **GSSS bonds**. Bonds that do not offer these additional non-financial benefits are colloquially known as **'vanilla'** bonds.

While there is no universally accepted or comprehensive definition that determines how these labels may be applied by issuers, GSSS bonds can be broadly grouped into two categories. The first category can be termed **'use of proceeds'** bonds, where the proceeds are committed to a project the issuer considers to have a positive environmental or social benefit. Examples include:

- **Green bonds** – bonds where the proceeds will be used to finance or refinance environmentally friendly projects or assets
- **Social bonds** – bonds where the proceeds will be used to finance or refinance projects or assets with positive social outcomes, or to address a social issue
- **Sustainability bonds** – bonds where the proceeds will be used to finance or refinance a combination of green and social projects or assets.

Frequently, the commitments made by the issuer in relation to use of proceeds bonds do not represent a contractual obligation on issuers. This means it is possible for the bond to lose its status as 'green', 'sustainable' etc (for example if the proceeds are not allocated as originally intended, making it misleading to continue to describe the bond as 'green'), without amounting to a default by the issuer or giving rise to any rights for investors.

The second category of bonds is known as **sustainability-linked bonds (SLBs)**.

These are bonds where the financial and structural characteristics may vary according to the issuer's progress against certain objectives, often called sustainability performance targets (**SPTs**), that are pre-defined by the issuer. This is usually intended to penalise the issuer if they have not made sufficient progress against their sustainability goals, most commonly by increasing the interest rate it must pay to investors, making the cost of raising the capital more expensive.¹

Therefore, while a sustainability-linked bond offers a non-financial benefit to investors in terms of the issuer's sustainability commitments, if the issuer fails to meet its targets, depending on the structure of the sustainability-linked bond, the investor may benefit financially in terms of the overall bond yield.

When selecting their objectives or SPTs, issuers also often identify a set of key performance indicators (**KPIs**), which may be used to measure performance against the SPT, or which may themselves be linked to whether the financial or structural variations to the bond are triggered.

Funds raised by SLBs do not usually have any restrictions relating to use of proceeds, and are allocated towards general corporate purposes. They may be popular with issuers that do not have existing green

¹ In some cases the terms may be intended to reward the issuer, for example by reducing the amount of interest it must pay to investors upon reaching particular goals.

assets or projects (for example, because they are at the beginning of their climate transition). They also impose actionable green obligations on issuers (as opposed to typical use of proceeds bonds).

GSSS bond frameworks

A bond framework for green, social, sustainability, or sustainability-linked bonds (referred to collectively in this consultation document as a **GSSS bond framework**) is a common tool used by issuers to communicate to investors how they intend to issue and manage their green or otherwise socially responsible bonds. It may contain information that informs how proceeds are allocated and how the issuer intends to monitor and report progress against any sustainability-related goals they have set for themselves. However, it typically does not form part of the contractual terms of the bond.

The use of a framework is derived from industry-led standards. While there are no direct requirements in the FMC Act to produce a GSSS bond framework document, doing so supports compliance with the fair dealing provisions in Part 2 of the FMC Act, and has become common practice among issuers.

Investor preferences about the kinds of projects or outcomes associated with sustainable products are constantly evolving and may vary from person to person. A GSSS bond framework is one of the tools available to help investors determine whether the issuer intends to manage the bond in a way that aligns with their values.

An issuer's GSSS bond framework may evolve over time in alignment with market standards, which may affect how the bond is managed or how the bond's proceeds are allocated.

FMA's power to grant class exemptions

We have powers to exempt persons from compliance with requirements in the Financial Markets Conduct Act 2013 (FMC Act) and associated regulations.

Before we grant an exemption, we must be satisfied that the exemption is not broader than is reasonably necessary to address the matters that gave rise to it. We must also be satisfied that the exemption is necessary or desirable to promote one or more of the following purposes of the FMC Act regime:

- to promote the confident and informed participation of businesses, investors, and consumers in financial markets
- to promote and facilitate the development of fair, efficient, and transparent financial markets
- to provide for timely, accurate, and understandable information to assist investment decisions
- to ensure appropriate governance arrangements apply to financial products and services, and allow for effective monitoring and reduce governance risks
- to avoid unnecessary compliance costs
- to promote innovation and flexibility in the financial markets.

We can only grant exemptions (including renewing existing exemptions) where we are satisfied that the statutory requirements are met. We need information from you to support our decision-making, so we encourage you to provide feedback.

Proposed class exemption

Background

Growth in demand for GSSS bonds and opportunity to develop New Zealand's GSSS bond market

The global market for GSSS bonds has grown exponentially. In New Zealand, consumers are increasingly prioritising non-financial characteristics when searching for investments. This surge in popularity means there is an opportunity to grow and develop New Zealand's sustainable finance market, and for New Zealand retail investors to participate in capital raising with green or socially responsible objectives.

The development of New Zealand's GSSS bond market would increase the range of innovative financial products available for New Zealand retail investors. These bonds may attract investors who would not otherwise invest in bonds, or would substitute vanilla bonds for GSSS bonds. Developing New Zealand's sustainable finance market may also incentivise issuers who are also climate reporting entities to issue GSSS bonds supporting their climate transition.

These objectives are aligned with the following purposes of the FMC Act:

- to promote and facilitate the development of fair, efficient, and transparent financial markets
- to promote the confident and informed participation of businesses, investors, and consumers in the financial markets; and
- to promote innovation and flexibility in the financial markets.

The same class exclusion

The exclusion in clause 19 of Schedule 1 of the FMC Act (referred to in this document as the **same class exclusion**, also known as the quoted financial products exclusion) enables issuers to offer financial products of the same class as financial products that have been quoted on a licensed market for at least 3 months, without the usual disclosure requirements in Part 3 of the FMC Act that require preparing a Product Disclosure Statement (PDS). This is on the basis that appropriate information is already publicly available in relation to existing quoted financial products of the same class, which investors can use to make confident and informed decisions, and perhaps most importantly that the quoted products are appropriately priced by the market by the time a same class offer is made.

The exclusion makes offering a financial product less expensive and less time-consuming for the issuer as it avoids the cost associated with preparing a PDS. To date it has been very well utilised by NZX issuers, allowing significant amounts of capital to be raised efficiently.

As set out in the FMA's 2019 information sheet [Green bonds – same class exclusion](#), because green bonds and other kinds of sustainable bonds claim to offer investors an additional non-financial benefit, they are not the 'same class' as vanilla bonds, even if all terms are identical. This means GSSS bonds cannot be offered off the back of existing quoted vanilla bonds under the same class exclusion.

Why we are considering a class exemption

Current regulatory settings may disincentivise offers of GSSS bonds

While the responsible investment market in New Zealand continues to grow, the GSSS bond market has to date been limited to a small pool of issuers, largely from the energy and property markets. These issuers typically own existing 'green' or 'sustainable' projects or assets, which may allow them to avoid additional compliance costs by recharacterising their existing vanilla bonds associated with these projects or assets as 'green' (a process known as 'greening'). This also enables them to make additional offers of identical GSSS bonds in the future, utilising the same class exclusion. However, this approach is not available to issuers who do not have existing green assets or projects, as their bonds cannot be accurately described as 'green' (or similar). These issuers may be disincentivised to make GSSS offers due to the cost of compliance. The 'greening' process is also not able to be used in the context of sustainability-linked bonds.

If an efficient route to market in New Zealand does not exist, issuers may instead utilise the same class offers exclusion to offer vanilla bonds, or choose to offer GSSS bonds to wholesale investors in Australia where there is a larger pool of capital and the bond market is predominantly institutional. It may also discourage overseas issuers listed on the NZX from choosing to offer GSSS retail bonds in New Zealand. This would limit the growth of the GSSS bond market in New Zealand.

Potential for a class exemption

We have heard from the industry there is a need for a more efficient route to market for GSSS bonds, so as part of this consultation we are seeking to establish whether there is a pipeline of issuers who would be interested in issuing GSSS bonds but are disincentivised by current regulatory settings.

Proposed exemption

Our regulatory settings do not distinguish between GSSS bonds and vanilla bonds – all of the same disclosure and governance requirements applying to a vanilla bond also apply to a GSSS bond. While these regulatory requirements are there for investor protection, for GSSS bonds where all elements of the bond (apart from the additional green or sustainable features, the interest rate and/or redemption date) are identical to a vanilla bond that has been quoted on the NZX Debt market for at least 3 months, we are considering whether we can facilitate relief from Part 3 disclosure requirements, applying a similar policy rationale to that of the same class exclusion.

An exemption of this nature would need to rely on the bonds being sufficiently similar to the existing quoted vanilla bonds (despite not being of the same class) for the market to be able to use the information already available (e.g. pricing, trading history) to efficiently price the products, and for investors to be adequately informed. If this requirement is met, we consider the compliance costs associated with producing a PDS may be unnecessary.

The exemption would likely need to be accompanied by conditions requiring issuers to disclose the basis upon which their products are labelled green, sustainable or otherwise, in line with the FMA's [Disclosure framework for integrated financial products](#) (IFPs), to fill any information gaps resulting from the bonds being issued without a PDS.

This would align with the following purposes of the FMC Act:

- to provide for timely, accurate, and understandable information to be provided to persons to assist those persons to make decisions relating to financial products
- to avoid unnecessary compliance costs.

Currently issuers tend to seek an individual exemption from disclosure requirements in these circumstances. We have granted two individual exemptions to allow issuers to offer sustainable and sustainable financing bonds on a similar basis².

We would like to test the case for making this relief available on a class basis and the policy rationale outlined above to see if it aligns with issuers and investors' experiences, including level of demand for GSSS bond issues.

To justify the approach proposed in this exemption, we want to hear from issuers of GSSS bonds about why these bonds are sufficiently similar to vanilla bonds, including any impact on pricing that may affect their market value. Many issuers specify that the green, social and sustainable features of their bonds do not create any contractual obligations. However, there are additional dimensions for investors to understand, including:

- their rights under the fair dealing provisions of Part 2 of the FMC Act in relation to ensuring advertising is not misleading, deceptive or based on unsubstantiated claims;
- the circumstances in which the bonds may lose their sustainability status, and any risks or consequences, including in relation to the price the GSSS bonds can be sold at.

We are particularly interested in feedback on the viability of the proposed approach for sustainability-linked bonds, as unlike typical 'use of proceeds' bonds, they may contain new terms that may or may not be triggered over the lifetime of the bond, potentially impacting the yield. This may make it harder for the market to price the product against a similar vanilla bond or predict how pricing would be affected if the additional terms were activated.

We are also seeking feedback to better understand the drivers of supply and demand of GSSS bond products both among issuers and investors – e.g. interest rate levels, brokerage fees and other compliance costs, internal processes, regulatory environment, and level of business confidence – and what quality control occurs as part of the issuance process. This will help us better understand appropriate regulatory settings for these bonds in line with the purposes of the FMC Act, e.g. to ensure appropriate governance arrangements, avoid unnecessary compliance costs, and promote innovation and flexibility.

Policy rationale and case for change

Q1	In your opinion, do the current regulatory settings in New Zealand disincentivise offers of retail GSSS bonds, and is this detrimental to the New Zealand bond market? Is an exemption required? Please give reasons for your view.
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² [Financial Markets Conduct \(Christchurch City Holdings Limited Sustainable Bond Offer\) Exemption Notice 2021](#); and [Financial Markets Conduct \(New Zealand Local Government Funding Agency Limited Sustainable Financing Bond Offer\) Exemption Notice 2023](#)

Q2	Are green, social, and sustainability bonds sufficiently similar to vanilla bonds that would otherwise be of the same class to justify an exemption? How can we ensure the market will be adequately informed to efficiently price the products, and investors understand the different features of the bond?
Q3	Are sustainability-linked bonds sufficiently similar to vanilla bonds that would otherwise be of the same class to justify an exemption? How can we ensure the market will be adequately informed to efficiently price the products, and investors understand the different features of the bond?
Q4	Do you consider any exemption should apply to both 'use of proceeds' bonds and sustainability-linked bonds? What are your views on any risks and mitigations associated with granting an exemption relating to sustainability-linked bonds?
Q5	Are sustainability-linked bonds suitable products for retail investors? Why or why not?
Q6	If you are an issuer or potential issuer of GSSS bonds, are there, or would there be, any contractual obligations associated with the GSSS features? Does this differ between 'use of proceeds' bonds and sustainability-linked bonds?
Q7	How does pricing typically differ between green, social, sustainability and sustainability-linked bonds and vanilla bonds? How is pricing impacted if the issuer does not follow through on its commitments? Please provide any relevant evidence, analysis, or studies.
Q8	What do you consider are the drivers of supply and demand for GSSS bond products relating to both issuers and investors? Will an exemption effectively respond to these drivers? Are there other interventions we could consider?
Q9	If you are an issuer, what are the estimated compliance costs associated with producing a PDS for a GSSS bond? Do you consider other routes to market (such as an individual exemption or simplified disclosure PDS) prohibitive, and if so why? If possible, provide an estimate of relevant disclosure costs for different options.
Q10	If you are an issuer of financial products, are you interested in offering GSSS bonds in the near future (either in New Zealand or overseas)? If so, which types of GSSS bonds are you interested in offering, and what is the approximate value?
Q11	If you are a current issuer of GSSS bonds, have you issued a PDS for those bonds, utilised the 'greening' process and the same class offers exclusion, or used a different route to market (i.e. relied on an exemption or exclusion)?
Q12	Have you offered a GSSS bond overseas, and why? Was the offer to retail or wholesale investors (or both)?
Q13	How would the proposed exemption impact NZ retail investors, including any benefit or detriment to investors' interests or information available to investors?

Scope of exemption

We are proposing an exemption from Part 3 of the FMC Act for listed issuers offering GSSS bonds with identical rights, conditions, limitations and privileges as existing quoted bonds, but which may have a different redemption date or interest rate, or both, and a different GSSS status.

The intent of the exemption is to provide relief on a similar basis to the FMC Act's same class exclusion. Offers made under the same class exclusion are not "regulated offers" for the purposes of the FMC Act, because they are made without the ordinary disclosure requirements in Part 3, but offers made in reliance on an exemption remain regulated offers, unless otherwise provided for in the exemption³.

The proposed exemption would apply where:

- the existing quoted bonds have been quoted on the NZX Debt Market at all times during the 3-month period before the time of the offer, and where trading has not been suspended for more than a total of 5 trading days during that 3 month period; and
- the issuer takes any necessary steps to ensure the GSSS bonds are, immediately after the issue, quoted; and
- the market rules of the NZX Debt Market contain continuous disclosure provisions.

An exemption from Part 3 would provide relief from disclosure requirements, such as producing a PDS. This would allow issuers to offer GSSS bonds in the circumstances outlined above, while keeping compliance costs down.

Additional settings

FMC Act Part 4

The FMA must not grant exemptions that are broader than reasonably necessary. We would like to hear feedback about whether an exemption is required from other parts of the FMC Act that apply only to regulated offers, for example Part 4. In practice, assuming the original quoted products were issued in compliance with Part 4, an exemption from this Part should not change an issuer's compliance obligations, such as the requirement for a supervisor and a trust deed. This reflects the approach we consider issuers should already be following in relation to bonds offered under the same class exclusion – because to satisfy the requirements of "same class" with identical rights, privileges, limitations, and conditions, the bonds must be subject to identical governance to the original quoted products (despite offers made under the same class exclusion being not regulated).

However, if the original quoted bonds were not issued in compliance with Part 4, for example if they were issued under a statutory exclusion or FMA exemption, a requirement to comply with Part 4 may undermine the ability to rely on the potential class exemption, as it would mean the new bonds would have different governance arrangements from the original quoted bonds and no longer meet the 'same class' requirements. We would like to hear if issuers may be in this position.

³ Section 561, FMC Act.

Regulated vs unregulated offers

We could include a provision in the exemption stating that offers made in reliance on the exemption are not regulated offers, to more closely replicate the relief provided in the same class exclusion. However there may be benefits to keeping these offers regulated. For example, it may enable the issuer to rely on a zero-rated approved issuer levy (AIL) under the Stamps and Cheque Duties Act 1971, rather than paying non-resident withholding tax.⁴

Other consequences of making a regulated offer (aside from the Part 3 requirements we are proposing to provide an exemption from) include possible implications for whether the issuer is in the business of offering or issuing regulated financial products. This falls into the definition of a financial service in section 5 of the Financial Service Providers (Registration and Dispute Resolution) Act 2008, and triggers the requirement to be registered on the Financial Service Providers Register and be a member of a dispute resolution scheme.

We welcome feedback on whether there are any other consequences of making offers that rely on the exemption a “regulated offer” or not.

GSSS status

We consider a bond with a GSSS status for the purpose of the proposed exemption is a bond that is labelled, referred to, or marketed as green, social, sustainability, sustainability-linked, or in any other way that indicates a non-financial benefit relating to positive environmental or social outcomes; and which has one or both of the following features:

- commitments by the issuer attached to the bond relating to how the bond’s proceeds are intended to be allocated in an environmentally friendly or socially responsible manner, e.g. in accordance with a GSSS framework;
- terms that link the bond’s financial or structural characteristics to the performance of the issuer against predefined sustainable performance targets and KPIs, e.g. in accordance with a GSSS framework.

For the purposes of the proposed exemption, we do not intend to attempt to describe the types of activities that may or may not be described as green, sustainable etc. Investor and market preferences may differ or evolve over time and this approach enables the investor to determine whether the non-financial benefits offered by the bond are in line with their own preferences (as long as the marketing around the bond is not misleading or deceptive, which may be considered ‘greenwashing’. This would contravene Part 2 of the FMC Act, which covers fair dealing, and could result in civil liability).

The FMA’s [Disclosure Framework for Integrated Financial Products](#) provides issuers with guidance about how to ensure investors receive useful information to aid decision-making, and we propose that conditions to this exemption will also require disclosures that will help mitigate greenwashing.

⁴ See section 86IB of the Stamps and Cheque Duties Act 1971. To meet the requirements the issue of the security must be under either a regulated offer for the purposes of the FMC Act, an offer referred to in clause 19 (same class exclusion) or 21(b) (exclusion for debt securities issued by a registered bank), or an offer to the public for the purposes of the Securities Act 1978.

Listed issuers

We propose to limit the class of eligible issuers who can rely on the exemption to listed issuers in order that these bonds can be quoted on the NZX Debt Market once issued.

Sustainability-linked bonds – potential limitations

Whether any exemption is inclusive of relief for sustainability-linked bonds will depend upon ensuring that:

- market-based pricing can be preserved (on a comparable basis to the same class exclusion); and
- retail investors receive appropriate information to enable them to understand the special features and risks of the bond without the requirement for a PDS.

The ways issuers choose to 'link' features of the bond to their sustainability performance may potentially vary significantly depending on the particular bond. It will be difficult for us to be satisfied on the above points on a class basis, if we may see novel kinds of sustainability-linked bonds issued under the proposed exemption.

If an exemption is inclusive of sustainability-linked bonds, we propose to limit any variation of the existing quoted vanilla bond's financial or structural characteristics to a change in the interest rate/coupon of the bond on a specified date(s) in response to the progress of the issuer against their predetermined objectives. This is the most common type of sustainability-linked bond.

Differences in interest rate are permitted in bonds considered to be of the 'same class'. While these bonds will not be of the same class as existing quoted vanilla bonds, this limitation may help support a case that any additional terms relating to a change in interest rates will not have a disproportionate impact on investors and market pricing.

While some issuers may choose to use alternative structures, we consider this structure will most likely capture the majority of the demand for this type of bond in the New Zealand retail market, and will provide more certainty about the types of sustainability-linked bond offers we may see under the exemption.

Further circumstances where exemption may apply

Secondary sale offers

Part 2 of Schedule 1 of the FMC Act specifies certain circumstances when an offer of financial products for sale requires disclosure under Part 3. These clauses are for the purposes of anti-avoidance.

Our intent is that if these circumstances are triggered, the relief contained under the exemption should also apply to any secondary sale offers, e.g. to 'every holder' of the financial product, rather than just the issuer. However, we note that whether any of these circumstances are likely to apply may depend on whether the offer remains a regulated offer or not.

Options

Under the FMC Act, an offer of an option to acquire, by way of issue, a financial product is an offer both of the option and the underlying financial product.⁵ We could also consider providing relief in the exemption for options to acquire GSSS bonds in these circumstances, if there is demand to offer these options (noting that the exemption must not be broader than reasonably necessary).

Circumstances where exemption would not apply

We propose any exemption not apply in the following circumstances:

- Where the offer is made within 3 months of (or in connection with enabling) a change to the essential nature of the issuer's business.
- A transaction for which the issuer has provided (or will be required to provide) disclosure to the NZX Debt Market as if it were listing on that market.

This will ensure at least 3 months of continuous disclosure since the listing to allow the market to adequately price the products.

We also propose that any exemption would not be available if we had previously made an order against the issuer under section 474 of the FMC Act, which prevents the issuer relying on the same class exclusion.

Scope of exemptions

Q14	Do you agree with the proposed scope of the exemption and the circumstances in which it would apply and not apply? Are there any other provisions of the FMC Act we should consider an exemption from, such as Part 4, and on what basis?
Q15	Should offers under the exemption remain regulated offers, or should we provide that offers made in reliance on the exemption are not regulated offers? Are there any further advantages or disadvantages associated with either approach?
Q16	Do you agree with our proposed definition of GSSS status and eligible class of issuer? Are there risks with a broad definition of GSSS status, e.g. that it may result in greenwashing or misuse of the exemption?
Q17	If you consider an exemption should be inclusive of sustainability-linked bonds, should we consider limiting the exemption to bonds where the issuer's sustainability performance targets are linked to the interest rate of the bond? Are there other financial or structural variations for sustainability-linked bonds we should consider including, and why?
Q18	Do you agree with our proposed approach relating to secondary sale offers and do you think the exemption should also include relief for offers of options?

⁵ Section 43, FMC Act.

Exemption conditions

We propose that the exemption will be subject to the following conditions, which will ensure the market remains adequately informed, and are closely aligned with conditions in the individual exemptions granted to date:

- That the issuer must give a cleansing notice to NZX and be in compliance with its continuous disclosure and financial reporting obligations. The purpose of a cleansing notice is to provide the market with additional information that may not have been disclosed, such as the fact that the product is being offered under an exemption.
- That, if the issuer becomes aware of a defect in the cleansing notice, the issuer provides information to NZX to correct the defect.
- That the issuer includes certain key statements in the Principal Terms sheet of the bond identifying the bond offer as having been made under the exemption, the issuer's disclosure obligations to NZX in relation to the offer, as well as identifying the existing quoted debt securities with a statement that investors should consider how the market assesses the returns and risk premiums for those securities.

We have set out the details of the above requirements in **Annex One** for those interested.

Conditions requiring disclosure of the additional GSSS features of the bond

Any exemption will also likely include additional conditions requiring the issuer to provide investors with information setting out the additional GSSS features of the bond and the basis upon which it is labelled as GSSS.

This information should enable investors to understand the value proposition attached to the instrument (in contrast to the vanilla bond), and the incentives on the issuer to meet any green or socially responsible ambitions. We consider the disclosures should address the following themes, in line with the FMA's Disclosure Framework for Integrated Financial Products:

- What the GSSS bond purports to offer beyond a vanilla bond;
- How non-financial performance will be measured and reported on;
- Oversight and governance of GSSS claims, and controls and processes implemented by management;
- Whether an external review, certification, assurance, second-party opinion, etc. has been provided, and the nature and scope;
- Risks or costs associated with the GSSS features of the bond;
- Consequences of failure, e.g. if the bond does not achieve the desired non-financial outcomes.

We are interested to hear how potential users of this exemption propose to make this information available to investors, to help inform the kind of conditions attached to any exemption.

We welcome feedback on any other kinds of information investors need to help them understand the GSSS features of the bond, and any areas where specific disclosures would be helpful.

In many cases a useful reference point for GSSS bonds, particularly sustainability-linked bonds, may be the issuer's climate statements prepared under Part 7A of the FMC Act. For bonds that aim to deliver outcomes relating to emissions reduction and climate change mitigation, the climate statements may help signal the meaningfulness of any GSSS bond. GSSS bond features at odds with the issuer's climate transition plan, under [Aotearoa New Zealand Climate Standard 1](#), would prompt regulatory interest and potentially risk being misleading.

Conditions

Q19	Do you agree with the proposed conditions, including that issuers would be required to disclose information relating to the bond's GSSS features? Why or why not?
Q20	Do you agree with the disclosure themes relating to GSSS bond features? Is there anything else issuers should disclose to assist investors' understanding of the bond, or other conditions we should consider placing on any exemption?
Q21	How would you propose the information about a bond's GSSS features be made available to investors? Would this differ depending upon whether the features are contractual vs non-contractual?
Q22	If you are an issuer or potential issuer of GSSS bonds, would you use a GSSS bond framework, or similar document, to disclose relevant information about the bond's GSSS features to investors? What are the advantages/disadvantages of making these disclosures via a framework as opposed to a terms sheet? How would investors be notified of any future updates or changes to the framework, and what impacts, if any, would this have on the GSSS status of bonds issued under earlier versions of the framework?
Q23	What process should issuers follow if there is non-performance of GSSS commitments associated with the bond? What is best practice disclosure in this context, and how would issuers be held to account, particularly where GSSS features are not contractual?
Q24	Do you agree that, for GSSS bonds that signal climate related outcomes, an issuer's CRD transition plan may be a useful reference point for the meaningfulness of any GSSS bond commitments?

Other

Q24	Do you have any other comments?
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Annex One

We have set out below in more detail some of the information we propose to require from issuers who rely on the exemption. This is closely aligned with individual exemptions we have granted on a similar basis. We welcome feedback on the below requirements.

Contents of cleansing notice

The cleansing notice must:

- State that the offer is being made to investors in reliance upon the exemption
- State that the issuer is in compliance with its continuous disclosure obligations and its financial reporting obligations.
- Set out any information that has not been disclosed to NZX under a continuous disclosure obligation as a result of an exclusion or waiver in the NZX Listing rules (defined as ‘excluded information’).
- In the case of the existing quoted debt securities, set out the information that would (if the existing quoted debt securities had had the same redemption date, interest rate, and GSSS status as the bond being offered under the exemption), be-
 - Required to be disclosed under a continuous disclosure obligation; or
 - Excluded information.

We propose the cleansing notice must contain information that is ‘material information’ within the meaning of the term in section 59 of the FMC Act.

Condition to correct defect in cleansing notice

If the issuer becomes aware of a defect in the cleansing notice within 12 months after the GSSS bonds are issued (in the case of (a)(i) or (ii) below), or before the GSSS bond offer closes (in the case of (a)(iii) below), the exemptions are subject to the condition that the issuer must, within a reasonable time after the issuer becomes aware of a defect, provide to NZX Limited a notice that sets out the information necessary to correct the defect for the purpose of the information being notified to the NZX Debt Market.

The notice is defective if:

- a) There is:
 - i. A statement in the notice that is false or misleading or is likely to mislead; or
 - ii. An omission from the notice of information that is required to be contained in the notice; or
 - iii. A circumstance that has arisen since the notice was given but before the offer closes that would have been required to be disclosed or otherwise contained in the notice if it had arisen before the notice was given, and the circumstance is not so disclosed in the notice; and
- b) The matter referred to in paragraph (a) is materially adverse from the point of view of an investor.

Key statements and information to be included in the Principal Terms sheet

The issuer must ensure that a statement containing the following information is included at the front of the Principal Terms sheet (in a prominent position), or if a Principal Terms sheet is not provided, given or sent to the investor:

- That the bond offer is clearly identified as an offer of debt securities that have attached to them identical rights, privileges, limitations, and conditions as certain existing quoted debt securities, except for having a different GSSS status, and (if applicable) a different redemption date or interest rate or both.
- That the issuer is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited for the purpose of that information being made available to participants in the market, and that that information can be found from a specified link or URL.
- Provide a list that identifies the existing quoted debt securities (identified by the interest rate, redemption date, and in any other way the issuer thinks fit).
- Contain a statement to the effect that the investors should look at the market price of the existing quoted debt securities to find out how the market assesses the returns and risk premiums for those debt securities.

