

From: Jacco.Moison@fma.govt.nz
To: [REDACTED]
Subject: FW: Climate Action in Financial Markets - Request for Information CRM:010400544
Date: Tuesday, 10 October 2023 9:42:53 am
Attachments: [REDACTED]

Dear [REDACTED]

Please find attached our response to your letter dated September 20, 2023. We have treated your request as an Official Information Act Request.

If you have any further questions please don't hesitate to reach out to us, as we are happy to discuss our responses.

Kind Regards,
Jacco

From: [REDACTED]
Sent: Wednesday, September 20, 2023 6:51 AM
To: Samantha Barrass <Samantha.Barrass@fma.govt.nz>
Cc: [REDACTED]
Subject: Climate Action in Financial Markets - Request for Information

Mōrena Samantha,

Please find attached a letter from [REDACTED] about climate action in financial markets, which I have sent on behalf of our [REDACTED]

We are interested in obtaining further information and discussing this issue with you or others at the FMA.

Ngā mihi,

[REDACTED]

10 October 2023

[REDACTED]
Email: [REDACTED]

Dear [REDACTED]

RE: Climate Action in the Financial Markets

Thank you for your letter dated 20 September 2023 with the following request:

“We are interested to understand what steps (beyond the actions mentioned in paragraph 2 above) the Financial Markets Authority may have considered to support the corresponding commitments of the New Zealand government under the Climate Change Response (Zero Carbon) Amendment Act 2019. In particular, has the FMA considered looking at what actions it might take to encourage transition financing, for example, via the development of the sustainability linked loans market in New Zealand, and if so what is planned?”

We have considered your request under the Official Information Act.

Under the Climate Change Response (Zero Carbon) Amendment Act 2019 (the Act), the primary work programmes for supporting the commitments of the Government are set out in the Emissions Reduction Plans and the National Adaptation Plans. These documents set out action plans and accountabilities for the affected government departments and agencies.

Emissions Reduction Plan

In May 2022 the Government published the first Emissions Reduction Plan which sets the direction for climate action for the next 15 years. Within chapter 6, covering funding and finance, is Action 6.6 on how the government will support investor decisions through world-first climate reporting legislation (which the FMA monitors and enforces) and Action 6.7 on how the FMA will support an integrated financial system.

Action 6.9 sets out the Government’s commitment to collaborate with the finance sector to accelerate sustainable finance. The Government states it is engaging with the finance sector to mobilise private finance for the climate transition. Key initiatives:

- Support SAFI to enable better on-farm sustainability outcomes.
- Continue to actively engage with the initiatives of the Toitū Tahua: Centre for Sustainable Finance, including regulatory and institutional levers to mobilise private finance.

Toitū Tahua has published the Roadmap for Sustainable Finance (2020). That report contains a number of recommendations relevant to transition financing, including developing 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 public sector investment as a vehicle for transformative change.

For this recommendation the report identifies the following parties as having accountability – Sustainable Finance Council/ Capital providers/ FMA/ Treasury and MBIE. We work closely with MBIE, Treasury and other regulators such as the Commerce Commission on climate-related issues, including some of the above recommendations, through the Council of Financial Regulators (see below for more detail).

A progress report on the Roadmap for Sustainable Finance was published last year [2022 Sustainable Finance Progress Report — Centre for Sustainable Finance](#) Before the report was finalised we provided comment on the recommendations which were relevant to us.

National Adaptation Plan

In August 2022, the Government published the National Adaptation Plan which contains Government-led strategies, policies, and proposals that will help New Zealanders adapt to the changing climate. The primary critical action for which the FMA is accountable is Action 3.5: Support high-quality implementation of climate-related disclosures. We are responsible for independent monitoring and enforcement of the disclosures regime. We will also provide guidance about compliance expectations, and report on monitoring activities and findings. Within Chapter 10 of the NAP, covering the economy and financial system, there are no specific actions allocated to the FMA.

The role of the FMA

Climate-related disclosures regime

We are responsible for independent monitoring and enforcement of the new Climate-related Disclosures regime, providing guidance about compliance expectations, and reporting on monitoring activities and findings.

We are taking a broadly educative and constructive approach to the new regime, issuing high level guidance on compliance expectations, then moving to a proactive regulatory role as the regime becomes more established.

Refer to our CRD webpage for more information, including the following guidance and information sheets that were published during 2023:

- [Climate-related Disclosures Monitoring Plan 2023-2026. \(fma.govt.nz\)](#)
- [Climate-related disclosures regime and the use of third-party providers. \(fma.govt.nz\)](#)
- [Information sheet: Climate-related Disclosures – Scenario analysis](#)
- [Guidance for keeping proper climate-related disclosure records \(fma.govt.nz\)](#)

We have also been regularly engaging (through 1:1 meetings, presentations, webinars, group meetings) with climate reporting entities and relevant industry bodies to communicate expectations and guide entities as well as being available and accessible for questions.

Our monitoring plan describes our approach to monitoring and how we will educate and communicate. Whilst we have a role to educate on compliance expectations and understanding of fundamental concepts in the Aotearoa New Zealand climate standards, as well as monitoring and enforcement of the transparency and accuracy of the information disclosed, we do not have a mandate to:

- Enforce an organisation to make strategic choices or act on climate change (this is up to the organisation themselves and their wider business support ecosystem to place requirements or pressures upon them to act based on the information disclosed in climate statements).
- Enforce best practice (however we acknowledge that we can and will encourage this).

Other climate related areas

The FMA also regulates the disclosures of integrated financial products (IFPs), which include non-financial factors such as natural, social or human capitals features.

Our role is also to require fund managers and other market participants to ensure they provide accurate information. If a fund is claiming green or sustainable credentials, that claim must come with sufficient detail to articulate and substantiate that story.

Council for Financial Regulators (CoFR)

Given climate change has far-reaching implications for New Zealand's economy and financial stability, it is a top 5 priority for CoFR.

New Zealand's financial regulators and other members of CoFR's climate community coordinate on climate-related initiatives within the regulators' legislative and regulatory mandates, to help the financial sector adapt for and mitigate climate change. New Zealand's financial regulators also work together to build capability, share expertise and knowledge around climate-related regulation.

CoFR members make relevant connections with domestic and global fora and organisations to ensure NZ is aligned with global regulatory development in the financial system, relating to climate change.

More information on CoFR's climate priorities and activities is in [Climate-related risks | Kaunihera Kaiwhakarite Ahumoni - Council of Financial Regulators \(cofr.govt.nz\)](#) and [cofr-climate-activities-2023.pdf](#)

In addition to this, CoFR's climate community works towards ensuring that the level of regulation is appropriate and supports New Zealand's transition to a low-emissions climate-resilient economy. The wider CoFR community publishes and maintains a Regulatory Initiatives Calendar, which includes industry consultations, reviews and legislative updates. The latest calendar is [here](#) and features a lot of work in the climate space.

FMA Priorities

The FMA's overall statutory objective is to promote and facilitate the development of fair, efficient, and transparent markets. We undertake a range of activities to achieve this outcome, including licensing firms and professionals, engaging and guiding industry, monitoring industry, investigating misconduct and enforcing the law, providing information to assist consumers, and collaborating with other regulators.

The range of market participants within the FMA's mandate is broad, and includes financial advisers and financial service providers, managers of investment schemes including KiwiSaver schemes, issuers of shares, debt securities and derivatives, front-line supervisors and auditors of financial product providers, exchanges on which financial products can be traded, and platforms through which financial products can be distributed.

Our priority is to ensure that investors and consumers receive good quality information on which they can make informed decisions about investing or participating in the markets. The majority of the legislation FMA is responsible for monitoring compliance with enables us to take action where market participants are not complying with these requirements.

The FMA as an Independent Crown Entity has significant discretion in how we focus our resources. We must consider how best to use our resources to fulfil all of our roles and achieve all of our objectives across the spectrum of financial markets participants we regulate. Consistently with the NZ Treasury's best-practice guide for regulation, we take a risk-based approach to regulatory resource allocation. We are satisfied that we have appropriately allocated FMA's resources to our climate-related work giving it an appropriate level of priority in our work programme.

Transition Financing

You have also asked has the FMA considered looking at what actions it might take to encourage transition financing, for example, via the development of the sustainability linked loans market in New Zealand. And if so, what is planned? The short answer to your question is yes, we have looked at this area. There are a number of actions which have been taken, and are planned. Some examples:

- We issued updated guidance about green bonds in 2020 <https://www.fma.govt.nz/library/guidance-library/green-bonds-same-class-exclusion/>
- We are continuing to monitor developments in the New Zealand bond market relating to green/sustainable bonds, including how individual exemptions are used by offerors, to identify whether any changes to our policy approach are necessary. For example, as the market for green bonds develops and different kinds of assurance/external review emerge, our approach now includes conditions aimed at improving investors' understanding of the type of third party review which has been applied to the bonds they are considering investing in, so they can more easily compare that potential investment to others in the market.
- We have monitored international developments eg [New guidance to support the development of green, social, and sustainability-linked loans](#) [March 2022]
- The Ministry for the Environment has primary responsibility for encouraging greater investment in 'green' investments under the National Adaptation Plan, action 5.14. We understand that MfE are closely monitoring Australian developments. A joint industry-government initiative received funding in May 2023 and the Australian and New Zealand Ministers of Finance and Climate Change

committed to close Trans-Tasman work in this area. We as regulator have experience and market knowledge and we plan to usefully engage with MfE on this.

You have noted in your letter the FCA's recent actions in the United Kingdom in relation to the sustainability linked loans market. We understand those actions were prompted by concerns about potential market integrity/ greenwashing/ conflicts of interest/ weak incentives. To date we don't have any significant evidence of the same issues in New Zealand which would justify similar regulatory action.

Conclusion

We have outlined above the steps we have considered to support the commitments of the New Zealand Government under the Climate Change Response (Zero Carbon) Amendment Act 2019.

We would be happy to meet with members of your committee to give further information about the work we are doing to support the Government's commitments under the Act, and the actions we have taken and are taking to encourage transition financing, and also to answer any further questions you have.

We also note you have the right to make a complaint to the Ombudsman in respect of this decision. You can find details on how to make a complaint on the Ombudsman's website at <https://www.ombudsman.parliament.nz/>

Yours sincerely



Jacco Moison

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