

24 October 2019

Financial Markets Authority
Level 5, Ernst & Young Building
2 Takutai Square
Britomart
Auckland 1010

By email: consultation@fma.govt.nz

Green bonds and other responsible investment products: FSC submission

This submission is from the Financial Services Council of New Zealand Incorporated (**FSC**).

The FSC is a non-profit member organisation and the voice of the financial services sector in New Zealand. Our 50 members comprise 95% of the life insurance market in New Zealand, and manage funds of more than \$47.5bn. Members include the major insurers in life, disability and income insurance, fund managers, KiwiSaver, professional services and technology providers to the financial services sector.

Our submission has been developed through consultation with FSC members, and represents the views of our members and our industry. We acknowledge the time and input of our members in contributing to this submission.

The FSC's guiding vision is to be the voice of New Zealand's financial services industry and we strongly support initiatives that are designed to deliver:

- strong and sustainable consumer outcomes
- sustainability of the financial services sector
- increasing professionalism and trust of the industry.

While we welcome guidance on the FMA's expectations, our members are concerned that the detailed and specific nature of some of the guidance proposed in this consultation may be premature. In particular, we note there are wide ranging and fast evolving international views on responsible investment issues. Our preference would be for an approach that provided more generic, principles-based guidance about FMA's expectations regarding disclosure (and other) compliance under FMCA, supported by examples from various contexts such as – but not limited to – responsible investment.

Our responses to the consultation questions are attached. I can be contacted on 021 0233 5414 or richard.klipin@fsc.org.nz to discuss any element of our submission.

Yours sincerely

Richard Klipin
Chief Executive Officer

Feedback form — Consultation paper: Green bonds and other responsible investment products

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Green bonds and other responsible investment products: [your organisation's name]' in the subject line. Thank you.

Submissions close on Thursday 24 October 2019.

Date: 24 October 2019

Number of pages: 4

Name of submitter: Richard Klipin

Company or entity: Financial Services Council

Organisation type: Industry association

Contact name (if different):

Contact email and phone: richard.klipin@fsc.org.nz 021 0233 5414

Question number	Response
<p>1. What do you consider to be the key features that make a financial product green, ethical, or otherwise responsible?</p>	<p>There are wide ranging and fast evolving international views on responsible investment issues. Our preference would be for an approach that provided more generic, principles-based guidance about FMA's expectations regarding disclosure (and other) compliance under FMCA, supported by examples from various contexts such as – but not limited to – responsible investment. Therefore a broad, inclusive approach to what the guidance treats as being a green or otherwise responsible investment (RI) is recommended. It should encompass any product with these key features in its strategy:</p> <ul style="list-style-type: none"> • refers to considerations that sit outside traditional financial evaluative metrics – <i>for example environmental, social, governance (ESG), or ethical considerations</i> • claims or implies that inclusion of those considerations will bring about positive social change for workers, customers or society – <i>for example income equality, diversity or sustainability.</i> <p>Some considerations may be both a material financial consideration and a social/environmental concern, for example climate change.</p>
<p>2. What are the key risks associated with green, ethical or otherwise responsible investment products?</p>	<p>From a retail investor's perspective, the key risks are:</p> <p>Terminology, policies and frameworks – used across the market – that are insufficiently consistent or clear to properly compare products.</p> <p>Incomplete information as to how RI considerations inform the investment practices (ie how policies become tangible actions), including:</p> <ul style="list-style-type: none"> • the steps taken to implement RI policies

	<ul style="list-style-type: none"> • what assurance is there that RI policies implementation is effective (and what monitoring is done) • why an approach is considered environmentally, socially, or ethically responsible.
<p>3. Which certifications, standards or sector exclusion lists do you think are appropriate for green, ethical or otherwise responsible investment products?</p>	<p>Our members do not support certifications, standards or lists being mandated in regulatory guidance. That would risk over-simplifying a complex area and thus misleading investors as to a product’s RI credentials.</p> <p>Work could be done across industry to consider the use of consistent labelling and measurement. As an industry association, we will explore how we can help in that regard.</p> <p>However, for regulatory guidance, we recommend a principles-based approach rather than encouraging or mandating specific certifications, standards or lists.</p> <p>We support you raising greenwashing as an issue. For relevant MIS products marketed to retail investors, exclusions could be set at a minimum level by omitting those companies or products that are required by law to be excluded e.g. manufacturers of cluster munitions. This should become more practicable as international standards and taxonomies develop.</p>
<p>4. What should disclosure for a responsible investment product include? How will this ensure investors are not misled about the nature, characteristics or suitability for purpose of a responsible investment product?</p>	<p>RI products would benefit from disclosure as to:</p> <ul style="list-style-type: none"> • why the policies are considered to be environmentally, socially, or ethically responsible • what practices are in place to ensure those RI policies are implemented effectively • whether the social or environmental impact is measurable (and if so how that will be done and communicated to investors)
<p>5. What are the key questions an investor should ask about responsible investment products?</p>	<p>Our members support the development of consumer-focused guidance on responsible investment. Such guidance should actively encourage retail investors to seek the advice of a financial adviser.</p> <p>In advice situations, investors should be encouraged to ask their financial adviser whether the scope of the advice includes the consideration of RI opportunities and risks. Once RI is scoped within the advice, the FSLAA and Code protections would apply.</p> <p>---</p> <p>There are a range of investment situations and a diversity of environmental, ethical and other concerns, so useful questions about RI policies are likely to vary from case to case. However, investor questions that focus on understanding the providers RI <i>practices</i> (see responses to questions above) will be more generic.</p> <p>Investors should also consider whether there are any online tools relevant to their circumstances, for example the investor tools and guides available at the UN’s Principles for RI site unpri.org/investor-tools</p>

<p>6. What due diligence and governance arrangements should be in place to support green, ethical or responsible investment objectives:</p> <p>a. For an issuer of green, ethical or responsible investment products, including MIS managers as issuers of ESG funds?</p> <p>b. For a MIS manager investing in green, ethical or responsible investment products?</p>	<p>In both cases, DD arrangements should consider:</p> <ul style="list-style-type: none"> the appropriateness of the RI policies and their periodic evaluation against the objectives of the product / fund the effectiveness of the implementation of those policies (ie what RI practices are in place to deliver the policies) how assurance is obtained as to the effectiveness of implementation what market standard the product refers to as supporting the product and whether that standard is appropriate. a customer-centric assessment of how that RI framework is communicated to retail investor if the impact of the RI policies can be measured if any aspect of the RI policies can be externally benchmarked
<p>7. What should be included in a Statement of Investment Policy and Objectives for registered MISs that have green, ethical or responsible funds?</p>	<p>The current FMA SIPO guidance note is sufficiently flexible to ensure appropriate coverage of RI. (We note that it makes specific reference of RI under “Other relevant [investment] policies”.)</p> <p>However, when the guidance note is next reviewed, consideration could be given to also including RI in the “Investment strategy” section, to make clear that – where relevant – the SIPO strategy should address non-financial considerations such as RI (and any measurement / accountability parameters in respect of them).</p>
<p>8. What best practice features should MIS managers include in disclosure to ensure investors properly understand the nature of underlying investments?</p>	<p>Explain how RI considerations inform their investment practices, why they consider their approach environmentally, socially, or ethically responsible, and what standards the investment claims to meet.</p>
<p>9. What other circumstances raise disclosure issues that our guidance should cover?</p>	<p>-</p>
<p>10. What other matters should our guidance include to:</p> <ul style="list-style-type: none"> promote and facilitate the further development of the broader responsible investment product market by providing greater clarity about the FMA’s expectations; and ensure investors have a clear understanding of what they are being offered and the risks involved, and are able to make informed and deliberate choices? 	<p>We support both these objectives from the draft guidance.</p> <p>However, there is a risk that too much is read into the first objective (ie first dot point). The focus of your RI guidance should be on consumer-centric disclosure, and the RI policies and practices necessary to support that. Broader RI market development strategies would risk undermining and confusing that important and much-needed focus on what constitutes “good disclosure”.</p> <p>Likewise, we would caution against attempting to “benchmark what good conduct ... looks like”. That phrase will inevitably be influenced by the likely new legislative requirements for the conduct of financial institutions, which appear to be centred on a fair treatment requirement. Conflating that with RI disclosure at this stage is an unneeded diversion.</p> <p>There are no other matters we consider should be included in the guidance.</p>
<p>Feedback summary – if you wish to highlight anything in particular</p> <p>While we welcome guidance on the FMA’s expectations, our members are concerned that the detailed and specific nature of some of the guidance proposed in this consultation may be premature. In particular, we note there are wide ranging and fast evolving international views on responsible investment issues. Our preference would be for an approach that provided more</p>	

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Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.

Thank you for your feedback – we appreciate your time and input.