8 June 2018

To the New Zealand Productivity Commission

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Submission to the Productivity Commission on Low-emissions economy

The Responsible Investment Association Australasia (RIAA) welcomes the opportunity to make this submission and respond to the questions underpinning the inquiry's terms of reference:

- What opportunities exist for the NZ economy to maximise the benefits and minimise the cost that a transition to a lower net-emissions economy offers, whilst continuing to grow incomes and wellbeing?
- How could NZ's regulatory, technological, financial and institutional systems, processes and practices help realise the benefits and minimise the costs and risks of a transition to a lower net emissions economy?

Overall RIAA praises the recommendations in the *NZ Productivity Commissions Low-emissions economy draft report* (April 2018) and we wish to clarify and amplify our inputs via this submission with a particular focus on addressing the findings and recommendations in Part Three: Policies and institutions; Chapter 6: Investment.

About RIAA

RIAA is the peak industry body representing responsible and ethical investors across New Zealand and Australia. RIAA has over 220 members who manage well in excess of $9 trillion assets under management globally. RIAA works to see more capital being invested more responsibly, working to shift capital into sustainable assets and enterprises, and shape responsible financial markets, to underpin strong investment returns and a healthier economy, society and environment.

Our membership includes individuals and organisations across the full investment value chain — from financial advisers and adviser groups to fund managers, KiwiSaver providers and asset owners (refer to Appendix One for the current list of New Zealand-based RIAA members).

The reason we are making this submission is because we believe that there is a considerably equipped finance sector that is growing in sophistication in terms of its ways and means of responding to environmental, social and governance risks and opportunities (witness NZ Super Fund's emission intensity reduction target of 20%, and fossil fuel reserves reduction of at least 40% by 2020 on a baseline of 30 June 2016) and we have the means to further build

and drive the sector to provide New Zealand what it needs to deliver a net-zero emissions economy by 2050.

It's our view that to best enable the finance sector to contribute to delivering on decarbonisation targets is to progress a low-emissions investment strategy as a coherent finance sector plan that brings together the many required pieces of activity and legislative changes to direct finance to aligning with the country's emissions objectives.

However, following recent progress by many major financial markets globally, RIAA recommends that New Zealand not limit this opportunity to greenhouse gas emissions alone, and rather establish a Sustainable Finance Roadmap for New Zealand, including elements of the low-emissions investment strategy, to align finance with Paris Agreement objectives, but going further to align with other national environmental and social objectives such as the Sustainable Development Goals.

The first step to delivering such a Roadmap would be the establishment of a Sustainable Finance Task Force that we implore the Government to progress with priority to join together the many related yet currently disparate legislative developments and provide the overarching framework to ensure the finance sector is aligned and supporting these important national objectives.

RIAA's overarching observation

As per the complement of findings and recommendations throughout the draft report, a lower emissions economy needs clear, loud and long government policy signals to provide direction for and to stimulate helpful market behaviours.

A multipronged approach, as recommended by the Productivity Commission across all sectors – using sticks and offering carrots – helps stamp out the worst performers by lifting minimum standards and creates a welcoming and rewarding environment for researchers and innovators by providing rewards through the setting mechanisms such as carbon pricing, favourable tax environments and feebates.

Generally, RIAA supports:

1. **Emissions pricing** – setting a price on emissions that is meaningful to achieving time-bound reduction targets and to ensure markets respond to find the optimal opportunities especially in transport, agriculture and energy systems.

2. **Mandatory Energy Performance standards –** getting rid of the worst and charting a path to improving efficiency of motors, vehicles and appliances that consume non-renewable energy sources; and improve the thermal efficiency of the built environment by improving New Zealand Building Code standards for energy efficiency.

3. **Enabling institutions** – establishing and backing institutions such as a Green Investment Fund, as well as a body to oversee whole of government synergies and efficiencies (e.g. bringing together forestry and energy policies and activities to reduce net-emissions).

4. **Improved disclosures**: including mandatory financial disclosures about climate risk (TCFD recommendation).

5. **Government procurement** – New Zealand and regional governments leading by example, learning by doing and bringing product and innovations to market in an efficient way.

RIAA's specific recommendations Part Three: Policies and institutions; Chapter 6 Investment

RIAA's New Zealand-based members manage over NZ$65 billion in assets. This group of KiwiSaver providers, asset owners, investment managers, researchers, consultants and financial planners, are already on their way to better understanding and considering ESG factors in their investment decision making processes as well as many now applying ethical screens that meet the normative expectations of New Zealanders.

RIAA agrees that there is sufficient capital available to meet low-emissions goals, and that the task is to put in place efficient and effective means of redirecting capital towards investments consistent with the required transition.

The draft report categorises the complementary measures (to an emissions pricing mechanism) in the following categories; RIAA shall provide commentary to measures 2 – 4 in this submission.

1. Equity finance
2. Debt finance (including green bonds)
3. Government initiatives (including early-stage equity financing, green banks, guarantees, and grants and loans; and
4. Climate-related financial disclosure requirements.

Debt finance

R6.1 The Government should clearly identify the market failure that the proposed Green Investment Fund (GIF) will address. Analysis should include, its mandate, financing approach and funding source, expected duration, institutional structure (including its degree of independence), desired minimum rate of return, relationship to existing infrastructure and clean technology funding sources, and scale of investment (wholesale or retail).

The Government should also state how the GIF would work in conjunction with any other initiatives relating to the provision of infrastructure or low-emissions technology finance

RIAA does not have a sufficient working knowledge of the operating mode, success or otherwise of the New Zealand Venture Investment Fund to confidently comment on whether updating its investment policy to identify low-emissions investments as a sector of interest would enable the effective and efficient mitigation of market failures that a Green Investment Fund (GIF) may address.

Drawing on the experience of the equivalent green investment bank experience in Australia – the Clean Energy Finance Corporation (CEFC) – which has been in operation since 2012, RIAA makes the following observations.

Direct provision of R&D support by government is important, however this also needs to include government assistance with the commercialisation of technologies, ideas and deal flows to maximise the government's investment in R&D spend.

An example of this is how the cousin-organisation of the CEFC, the Australian Renewable Energy Agency (ARENA) provides grants and loans for R&D whilst the CEFC, invests alongside other lenders and investors to assist with de-risking the commercialisation of technologies and service applications and successfully bring these to market.

The two institutions have separate boards, mandates and budgetary mechanisms. This independence from politicised government is key as is the autonomy of the institutions to pursue their respective objectives. The two organisations work collaboratively to "pull" products to market right through the product development cycle. The organisations may invest in VC-style organisations, but this would be to better develop that sector of the Australian VC sector, not necessarily to obtain the best financial position in a deal for the Australian tax payer.

In the commercialisation stage, the CEFC, with no upper investment amount, takes direct positions in deals to deliver on a pre-determined set of investment objectives for that particular deal, many of which will be extra-financially related (e.g. build capacity of bank's bond team to assess risk in an offshore wind-farm deal).

RIAA's sense is that a stand-alone green investment bank to administer the GIF would provide the scope and latitude to deliver to the intended goals across a wider set of sectors and with a broader scope of finance tools and investment players. The new GIF would work closely with the NZVIF where projects are complementary in the administration of patient capital and where the VC market in relation to low emissions technology requires support from the new GIB, in collaboration with the NZVIF.

Government initiatives (including early-stage equity financing, green banks, guarantees, and grants and loans

Probably one of the most impactful outcomes of the Australian-based CEFC is the increased market confidence it provides by co-investing with third-party investors and the ability it has to reduce overall financing costs by helping de-risking deals (as opposed to providing direct debt or equity to projects).

The fears of crowding out private actors is real which is why the approach taken by the CEFC has been so successful: only investing alongside other existing investors.

If established appropriately, the vehicle that administers the GIF can have the effect of providing government financial guarantees. This has been achieved in Australia via the CEFC by taking junior (and senior) mezzanine positions on loans deals. Therefore, RIAA concurs with F6.4 on the provision that a green investment bank is established to be able to invest in a way that delivers a similar if not the same outcomes as a government guarantee.

Climate-related financial disclosure requirements

R6.2 The Government should officially endorse the recommendations of the Task Force on Climate-related Financial Disclosures.

R6.3 The Government should incorporate mandatory climate-related financial disclosures into existing regulatory instruments as appropriate. The disclosures should be in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

RIAA wholeheartedly supports the report's R6.2 and R6.3 and recommends that these be implemented by undertaking all of the following activities:

a. interpreting existing requirements as requiring climate risk reporting;
b. encouraging TFCD-aligned voluntary reporting via industry; and
c. integrating the recommendations into existing or new government-mandated reporting requirements.

The first would require a regulator to publicly announce a clear and loud expectation for carbon risk reporting from existing reporting frameworks. In Australia in February 2017, APRA's executive board member Geoff Summerhayes made a clear statement regarding the interpretation of existing legislation around fiduciary duty of superannuation trustee boards and the materiality of climate risk to the investment risk due diligence process. RIAA's *Super Fund RI Benchmark Report 2018* published in May 2018 showed that up to one-third of the largest regulated superannuation funds do not consider climate risk at a trustee board level at least on an annual basis. Accordingly, because of its apparent lack of efficacy, RIAA does support the Productivity Commission recommending this approach alone.

The second involves a small commitment by government of resourcing key industry associations to capacity-build investee companies and investors themselves in being able to report on, interpret and respond to climate risk reporting to inform superior business and investment decision-making. RIAA supports this as a way of reducing regulatory costs and it smooths the way for the approach which is proven to be most effective – the third.

RIAA's concurs with the Productivity Commission's assessment of the adequacy of the NZX Listing Rules together with the NZX Corporate Governance Code in delivering this for the New Zealand economy as a whole; due in part to the limited scope applying only to listed firms.

Furthermore, the Code, whilst strong in terms of requiring extra-financial disclosures on a comply or explain basis, does not explicitly require TCFD scope of reporting. The Code's ESG guidance note (published in December 2017) does refer to TCFD but the status remains a guideline.

As the Productivity Commission's report also finds (F6.7) existing laws (Companies Act 1993) may not be adequate to incentivise the disclosure of climate risk in a manner that is consistent and credible, therefore RIAA supports the enhancement to existing law (or the creation of a new one if deemed more politically expedient and productively efficient) to explicitly require climate related disclosures consistent with the TCFD. This would ensure that both a fuller scope of organisations is covered, and that reporting is required consistent with the TCFD's reporting requirements.

This third approach, with the second and first, would together underpin the effectiveness of the investor community to (a) hold investee companies to account for the scope and quality of their disclosures, (b) better undertake evidence-based investment decision making and (c) deliver superior risk managed investment portfolios. Ultimately these factors help lead to superior long-term risk adjusted returns for investing New Zealanders and the New Zealand economy as a whole.

We note that TCFD requirements should also apply to investment organisations themselves and we see company disclosures as an important pre-requisite to enabling more effective investor disclosure. That said, we encourage adequate guidance and where necessary legislative changes in so far as it clarifies the investor disclosure requirements for TCFD. We

see this as an important part of delivering to consumers a more transparent investment sector.

R6.4 The Government should develop, in conjunction with interested parties including the private sector, a low-emissions investment strategy for New Zealand. Relevant topics should include:

- the strategic alignment of direct government investment intended to support the transition to a low-emissions economy (e.g., grants, loans and other initiatives such as the proposed Green Investment Fund), as well as the interaction between policies such as disclosure requirements and direct government funding;
- the investment mandates of large public institutional investors (e.g., ACC or the NZ Super Fund);
- the role of financial sector regulation in supporting the low-emissions transition; and
- what constitutes low-emissions investment, with the aim of identifying a clear taxonomy of measurable investment flows.

It is without question that a low-emissions investment strategy for New Zealand is pivotal to the success of delivering to the New Zealand Government's lower emission net-zero target by 2050. It is also clear that finance and investment has one of the key roles in delivering this. RIAA strongly supports the need for an overarching low-emissions investment strategy that would:

- show a cost curve of opportunities for investment projects across the key sectors of energy, forestry, agriculture and transport and the means by which these could be delivered (e.g. via the GIB).
- include the role of governments at all levels to enable the strategy to be delivered, including the setting of hard laws to require climate risk disclosures consistent with the TCFD, revised government procurement requirements etc., in the various stages of the transition
- and many other aspects.

But furthermore, we encourage the Commission to note the rapid emergence of Sustainable Finance Roadmaps in many countries globally – from the UK's Green Finance Task Force, to the EU's Action Plan for Sustainable Finance, Norway's Roadmap for Green Competitiveness in the Norwegian Finance Sector, Chinese Green Finance Plan and so on.

New Zealand should not limit this opportunity to set a coherent plan for finance to greenhouse gas emissions alone and should rather be establishing a Sustainable Finance Roadmap for New Zealand, including elements of the low-emissions investment strategy, to align finance with Paris Agreement objectives, but going further to align with other national environmental and social objectives such as the Sustainable Development Goals.

In the model of other global leading countries, this should be undertaken with a first step to establish a Sustainable Finance Task Force, that we implore the Government to progress with priority to join the many related yet currently disparate legislative developments to provide the overarching framework to ensure the finance sector is aligned and supporting these important national objectives.

The following is an initial list of these policy and regulatory initiatives that already exist or are underway in New Zealand:

- Green Investment Fund
- NZ Treasury's wellbeing framework cross four capitals
- NZX Listing Rules
- Zero Carbon Bill
- NZX Corp Governance Code
- Code of Professional Conduct for Financial Advice Services

There are further connections that need to be explicitly noted under this coherent Sustainable Finance Task Force including requirements in PPPs, guidance from the Reserve Bank, Public Finance Act, FMA Code, and data gathering within the System of Environmental Economic Accounts for example.

Now the dots need to be joined towards a clearly articulated direction to ensure capital markets are all moving in a direction consistent with the nation's commitments.

Other jurisdictions have taken such steps, and are positioning themselves as centres for sustainable finance, the European Commission's Action Plan on Financing Sustainable Growth, which emerged from a High-Level Expert Group on Sustainable Finance. The UK, China, Canada, Norway, Indonesia and many other centres are also working to put the weight of capital behind national targets to drive cleaner, fairer and more prosperous nations.

This model is highly recommended by RIAA for New Zealand to show leadership in this region to this end.

RIAA is proposing the establishment of the Sustainable Finance Task Force, incorporating a low emissions investment strategy, but that goes further to cover issues such as:

- Clarification that Investor duties include consideration of environmental and social factors
- Disclosure requirements for both companies and investors, including specific recommendations of the TCFD
- Progressing opportunities for retail investors to access sustainable investment products and services
- Helping to clarify and articulate standards of sustainable investment opportunities, including green bonds
- Ensuring the relevant regulators are adequately resourced to manage for climate risks

- Require consumer preferences around sustainability to be accounted for in the provision of financial advice and pension style products
- Embedding climate targets across other areas of government such as infrastructure pipelines

The Sustainable Finance Task Force would prioritise the lower-emissions net-zero 2050 transition. The Sustainable Finance Task Force would comprise a range of relevant investment industry stakeholders, as well as relevant participants from government and regulators and be resourced to undertake research, and consultations to deliver a Sustainable Finance Roadmap and assist finance sector to fuel the New Zealand's transition to a productive, prosperous and participatory lower-emissions economy by 2050.

We would be delighted to discuss our thinking about the focus and scope of this task force in person with the Productivity Commission at a time that is convenient.

In conclusion

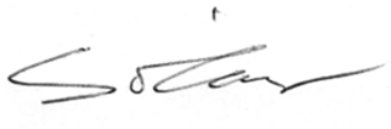
RIAA also commends to the commission that submissions of the National Advisory Board on impact investment that highlights the important role that the emerging field of impact investment can deliver to support this low emissions transition.

RIAA's overarching recommendation

RIAA welcomes the chance to provide this submission and to provide input into the work of the Productivity Commission.

We wish to have a meeting with the Commission to speak to our submission. I can be contacted on the number below and my colleague Nicolette Boele, Executive Manager Policy, Research and Certification is contactable at the same number or nicoletteb@responsibleinvestment.org.

Yours Faithfully,



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APPENDIX ONE

RIAA's New Zealand membership as at June 2018

- **KiwiSaver providers and fund managers** - Medical Assurance Society, AMP Capital, ANZ Investment, Booster Investments, Kiwi Wealth, Milford Asset Management, Mercer, NZ Methodist Trust Association, Pathfinder Asset Management, Devon Funds Management;
- **sovereign wealth fund -** NZ Superannuation Fund;
- **adviser groups** - Saturn Portfolio;
- **financial advisers** - Henry Ford, Janet Natta, Jocelyn Weatherall, Jonathan Neal, Peter Lee, Richard Knight, Rodger Spiller;
- **trusts and foundations** - Foundation North, Otago Community Trust, Trust Waikato;
- **professional services and consultants** - KPMG NZ, Giving Architects, The Investment Store, Eriksen & Associates, New Ground Capital; and
- **supporting individuals**.

A full list of RIAA membership is available here.