



CENTRE FOR
**Sustainable
Finance**
TOITŪ TAHUA

Climate Bonds INITIATIVE

Developing a Sustainable Finance Taxonomy for Aotearoa New Zealand

Key design recommendations prepared for
the Minister for Climate Change by an
Independent Technical Advisory Group

Executive Summary



Executive summary

The Centre for Sustainable Finance (CSF) convened an Independent Technical Advisory Group (ITAG) to prepare a set of recommendations for the design and development of a Sustainable Finance Taxonomy for Aotearoa New Zealand. The Climate Bonds Initiative (Climate Bonds) served as a delivery partner for the project and provided technical assistance to the ITAG for the formulation of the recommendations based on the organisation's experience with other benchmark taxonomies.

The recommendations put forward by the ITAG to the Ministry for the Environment (MfE) were developed through a series of online meetings from January to April 2024 and cover the following ten topics: principles, purpose, objectives, sector prioritisation, definitions, usability, application, eligibility, transition and governance.

The recommendations build on the initial scoping and stakeholder engagement undertaken to assess the applicability of the Australian Sustainable Finance Taxonomy for the context of NZ.

The full recommendations report is structured around four main sections:

- 1.** Background and context of this work.
- 2.** A description of the stakeholders involved.
- 3.** A summary of the recommendations.
- 4.** Detailed recommendations for the ten key topics.

The summary of recommendations is provided below.

Summary of recommendations

TOPIC	ITAG RECOMMENDATIONS
Principles	<p><u>ITAG Recommendation 1</u></p> <p>The Principles of the NZ Taxonomy should be:</p> <ul style="list-style-type: none">• Credibility – Mana• Usability – Whakamahi• Interoperability – Tuhono• Culture – Ahurea• Prioritisation – Whakarite <p><u>ITAG Recommendation 2</u></p> <p>There is formal and increasing international recognition of the contribution and rights of indigenous peoples and local communities as custodians of biodiversity and as partners in its conservation, restoration and sustainable use. To reflect the culture of NZ, the ITAG recommends that the rights and knowledge of iwi/Māori are embedded into the design of the NZ Taxonomy.</p>
Purpose	<p><u>ITAG Recommendation 3</u></p> <p>The purpose and outcomes of the NZ Taxonomy are:</p> <p>The Sustainable Finance Taxonomy of Aotearoa New Zealand is a classification system for economic activities. It enables market participants to mobilise and direct capital flows towards:</p> <ul style="list-style-type: none">• Building a low-emissions, Paris-aligned future;• Restoring nature; and• Upholding the rights and interests of indigenous people of the land.
Objectives	<p><u>ITAG Recommendation 4</u></p> <p>In line with international best practices, the environmental objectives of the NZ Taxonomy will include iwi/Māori understanding and knowledge related to each objective, initially prioritise climate change mitigation, adaptation and resilience, and include (not in order of priority):</p> <ul style="list-style-type: none">• Climate change mitigation• Climate change adaptation• Sustainable use and protection of water resources and marine resources• Protection and restoration of biodiversity and ecosystem• Pollution prevention and control• Transition to a circular economy

TOPIC	ITAG RECOMMENDATIONS
Sector prioritisation	<p><u>ITAG Recommendation 5</u></p> <p>The priority sectors for developing the NZ Taxonomy are:</p> <ul style="list-style-type: none"> • Agriculture, Forestry & Fisheries • Transport • Construction & Real Estate activities • Energy • Industrial Manufacturing
Definitions	<p><u>ITAG Recommendation 6</u></p> <p>The NZ Taxonomy should adopt ANZSIC as its classification system in order to align with other benchmark taxonomies such as Australia and the EU. When ANZSIC codes are not available at the granular activity-level, the ITAG recommends building ad hoc activity-specific codes.</p>
Usability	<p><u>ITAG Recommendation 7</u></p> <p>To enhance usability in NZ, it is important to connect to existing data, national and international labels and criteria while also growing relevant capacity and increasing the availability of new information over time.</p> <p><u>ITAG Recommendation 8</u></p> <p>The NZ Taxonomy should be linked to disclosure requirements – e.g. disclosure standards and guidance issued by the External Reporting Board.</p> <p><u>ITAG Recommendation 9</u></p> <p>Recognising that taxonomies are tools primarily for sustainable finance, the NZ Taxonomy developers should aim to make it fit-for-purpose and usable across a range of key stakeholders in NZ including regulatory agencies, capital market stakeholders (including retail investors), the public sector, civil society, iwi/Māori, and the general public.</p>
Application	<p><u>ITAG Recommendation 10</u></p> <p>It is proposed that the use of the NZ Taxonomy is voluntary in its initial phase, with an expectation it could become mandatory over time following a phase-in approach or grace period.</p> <p><u>ITAG Recommendation 11</u></p> <p>The NZ Taxonomy should be designed for a broad range of applications, not just debt markets.</p> <p><u>ITAG Recommendation 12</u></p> <p>The NZ Taxonomy should focus on defining 1.5 degree aligned ‘green’ activities as a priority but should have a role in facilitating transition finance. It should feature a separate transition category, following the example of benchmark taxonomies such as the ASEAN, Australian and Singaporean taxonomies.</p>

TOPIC	ITAG RECOMMENDATIONS
<i>Eligibility</i>	<p><u>ITAG Recommendation 13</u> The NZ Taxonomy should adopt an eligibility approach based on technical screening criteria that are binary, credible and internationally recognised.</p>
	<p><u>ITAG Recommendation 14</u> The technical screening criteria can be complemented by whitelists (technologies or measures) where data is not available.</p>
<i>Transition</i>	<p><u>ITAG Recommendation 15</u> The transition category should encourage substantial movements towards a 1.5-degree pathway for a defined and limited list of sectors/activities that are material and relevant to NZ. This transition category should be for activities within a predetermined period of time and that have no low-carbon alternative.</p>
	<p><u>ITAG Recommendation 16</u> The NZ Taxonomy should consider adopting a traffic light system to label transitioning activities that is based on a robust methodology to ensure that any transition category or label is used to drive material step changes to emissions beyond business as usual.</p>
<i>Governance</i>	<p><u>ITAG Recommendation 17</u> The NZ Taxonomy should adopt a three-tiered governance structure to ensure the transparency and credibility of its development process, with formal roles for iwi/Māori across all tiers. This would include:</p> <ul style="list-style-type: none"> ▪ Tier One: An overseeing body responsible for the endorsement of the NZ Taxonomy and for the provision of strategic direction. ▪ Tier Two: A coordinating group consisting of members with relevant expertise from within Government, iwi/Māori, industry and civil society, responsible for coordinating the design and development of the NZ Taxonomy. ▪ Tier Three: A group or set of technical working groups responsible for the design or co-design of the content of the NZ Taxonomy.
	<p><u>ITAG Recommendation 18</u> As an integrity safeguard, Government funding for the NZ Taxonomy should be provided from a different agency/source than the Government oversight group (Tier One).</p>