



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






This document was produced by the Climate Bonds Initiative
and the Centre for Sustainable Finance: Toitū Tahua on behalf of the
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Executive summary

This report provides a set of recommendations for the design and development of a Sustainable Finance Taxonomy for Aotearoa New Zealand ('NZ' hereafter) developed by an Independent Technical Advisory Group (ITAG) convened by the Centre for Sustainable Finance: Toitū Tahua (CSF). 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.

This 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.

Background and context

Climate change is the most pressing global issue, and its impact on the planet is being felt in the form of rising temperatures, melting glaciers, rising sea levels, and more frequent natural disasters. The continued burning of fossil fuels and other human activities have caused the global mean surface temperature to rise by 1.1 degrees Celsius during the period between 2011 and 2020 compared to pre-industrial levels (1850-1900).¹

At the same time, the boundaries that allow Earth to self-regulate and allow humanity to prosper are being trespassed, with six of the nine Planetary Boundaries identified by scientists already transgressed.

NZ is experiencing changes in rainfall patterns, rising sea levels, and more frequent extreme weather events. There is unprecedented risk to the natural capital that underpins its primary industries, tourism, manufacturing and other key sectors which contribute substantively to its Gross Domestic Product (GDP). Even businesses that do not seem directly connected have hidden dependencies through their supply chains. NZ has one of the highest rates of threatened or at-risk species globally.²

In response to the twin challenges of climate change and the decline of nature, the requirements of international capital providers, regulators, customers and consumers are rapidly changing.

Over 80 percent of NZ's exports by value are going to countries with mandatory climate-related disclosures - proposed or in force. 40 percent of its exports by value are going to countries with carbon border adjustment mechanisms (CBAM) in place or under consideration, such as the European Union (EU), the United Kingdom (UK), the United States (US), Australia, and Taiwan.³

As humanity seeks to secure a low-emissions and resilient future, in line with the goals of the Paris Agreement, countries are positioning themselves to benefit from a global reallocation of capital.

In this context, sustainable finance can play a key role in mobilising capital and its shift towards investments and infrastructure needed to achieve this future. For capital markets and investors to be able to make rational choices about their green investments, they need tools that can help them screen economic activities and their underlying assets according to evidence-based environmental performance – for instance, the degree to which those economies activities and assets ensure greenhouse gas (GHG) emissions reductions or the degree to which they help built infrastructure that is adapted to a changing climate.

A green or sustainable finance taxonomy is a standardised framework for classifying economic activities according to their environmental performance. This classification system, in particular and foremost, allows investors to identify and invest in green activities while avoiding those that cause significant harm to the environment. It helps to align investment decisions with environmental objectives and to avoid assets that are not aligned with the goals of the Paris Agreement. It can also direct capital flows towards new green technologies and increase the overall transparency of the financial sector through more transparent reporting.

¹ Intergovernmental Panel on Climate Change (2022), [Sixth Assessment Report \(AR6\)](#).

² Organisation for Economic Co-operation and Development (2017), [OECD Environmental Performance Reviews: New Zealand 2017](#); New Zealand Ministry for the Environment and Stats NZ (2019), [Environment Aotearoa 2019](#).

³ Chapman Tripp and The Aotearoa Circle (2024), [Protecting New Zealand's Competitive Advantage: A Snapshot of Global Sustainability Reporting and Trade Trends](#).

In 2021, in line with international developments in green finance, the voluntary, industry-led NZ Sustainable Finance Forum published a 2030 Roadmap (SFF Roadmap) to advance a financial system that is more resilient, inclusive, robust and agile through the incorporation of environmental, social and economic considerations in financial decisions.

The Sustainable Finance Forum recommended:

- Sustainable standards (for both social and environmental factors) be created for the purposes of providing objective definitions of sustainable activities in NZ for investment, lending and insurance.
- Sustainable standards be harmonised to leading international standards in the finance sector, including the EU Taxonomy and the Climate Bonds Standard, but differ where appropriate for the NZ context, as done in a number of other jurisdictions. This should be expanded on to provide a comprehensive standard that aligns with leading practice in NZ, particularly with certain fundamental social aspects.

In 2022, the Government included action 5.14 in the National Adaptation Plan (Chapter 5)⁴ to "[...] support the development of a 'green' taxonomy to identify a common definition of climate and nature-positive investments. This could help guide businesses that are investing in both adaptation and mitigation to protect against greenwashing. If aligned with best practice, it could support greater international investment in Aotearoa New Zealand's climate-resilient projects, including nature-based solutions." This should be designed and developed in collaboration with industry, academic organisations, iwi/Māori, and the scientific community.

Prime Ministers of Australia and NZ have committed to a Trans-Tasman Roadmap to 2025, which features climate as a priority for alignment between the two countries particularly in terms of sustainable finance frameworks and of positioning the region as an attractive green finance hub.

In this context, in 2024, following initial scoping and stakeholder engagement by CSF and MfE, the Minister for Climate Change invited CSF to provide recommendations on the key design considerations for an NZ Sustainable Finance Taxonomy.

These recommendations are based on the requirement that the future Taxonomy of NZ will feature a high degree of interoperability with the Taxonomy of Australia.

⁴ New Zealand Government (2022), [Aotearoa New Zealand's First National Adaptation Plan](#), Chapter 5.

Phases

The design and development of the NZ Taxonomy has so far been articulated into three sequential phases:

PHASE ONE (complete)

- Set out Terms of Reference (ToR) and establishment documents for an ITAG and frame the future NZ Taxonomy work.

PHASE TWO (current phase)

- Convene the ITAG led by CSF through an invitation process.
- Deliver a set of clear recommendations (this report) for the design of the NZ Taxonomy.

PHASE THREE (future phase)

- Design and establish the NZ Taxonomy governance structure to include independent board/governance group, sector-specific technical advisory groups and iwi/Māori groups.
- Engage delivery partners to support the design of the NZ Taxonomy.
- Publish the draft NZ Taxonomy document for public consultations and the integration of feedback into a final NZ Taxonomy document.

The proposed approach for the development of the NZ Taxonomy aims to be pragmatic, align with international standards and best practices, be relevant domestically and secure wider industry and societal buy-in.

Phase Two aims to ensure clarity of purpose and key design principles are established prior to commencing the technical work of Phase Three. In Phase Three, in addition to the design of the core components of the NZ Taxonomy i.e. Technical Screening Criteria (TSC), Do No Significant Harm (DNSH), and Minimum Social Safeguards (MSS), further technical decisions are made and methodologies agreed.

This will include governance structures and arrangements, further prioritisation of environmental objectives, sequencing of social objectives, level of ambition and thresholds in each economic activity, transition methodology, sequencing of green and transition criteria, more granular prioritisation of sectors, further considerations of eligibility, usability, application, interoperability and the point at which the NZ Taxonomy is considered 'minimum viable product'. These design decisions are beyond the scope of Phase Two.

The Independent Technical Advisory Group (ITAG)

Role

The interim Independent Technical Advisory Group or “ITAG” was established as an independent non-binding expert technical group to advise the Minister for Climate Change, through MfE, on the design of a sustainable finance taxonomy that is fit for purpose for the NZ market. The ITAG is made up of technical experts, subject matter experts and financial market participants.

Remit

The ITAG is a formal decision-making group, and its role and composition may be reviewed for the future phases of the NZ Taxonomy. It was established as an interim group for the second phase of the NZ Taxonomy project. Its role is confined to this phase and its advice covers key aspects of taxonomy design, development and application, including, but not limited to:

- The most appropriate structural components (e.g. purpose statement, objectives, scope, framework, alignment and core guiding principles) for the NZ Taxonomy.
- The incorporation of social objectives into the NZ Taxonomy.
- How to harmonise and ensure international credibility and interoperability with emerging international taxonomies (including the rationale, implications and recommendations for any deviations from existing international frameworks or taxonomies).
- How the NZ Taxonomy can effectively be utilised as a market tool to mobilise financial flows and facilitate NZ’s transition to a net zero and resilient economy in line with Government policy objectives.
- How the NZ Taxonomy could be used to align and accelerate the delivery of wider NZ climate and environmental policy and targets, and the Australia-New Zealand 2+2 Climate and Finance Dialogue commitment⁵ to enhance a robust green finance market across the Tasman (Trans-Tasman commitment).

⁵ Australia Government and New Zealand Government (2023), [Inaugural Australia-New Zealand 2+2 Climate and Finance Dialogue Joint Statement](#).

The Independent Technical Advisory Group (ITAG)

Membership

Members were identified and invited to join the ITAG by CSF. Potential members were agreed by MfE and CSF in advance. The ITAG is composed of a pool of approximately 15-20 experts and market participants. They were selected to represent expertise from a cross-section of potential users of the NZ Taxonomy (financial and non-financial), taxonomy and data experts, Māori finance, science, and academia. More specifically, members were selected based on:

- The experience and knowledge of individual members and/or their organisations, of the development or application of sustainable finance taxonomies or other similar sustainable finance policy, regulation, and tools.
- The ability of members to draw on the institutional knowledge and expertise of their organisations and professional networks.
- The balanced representation from different parts of the financial system to ensure diversity within the group.

ITAG members

1. **Pip Best**, Partner - Climate Change and Sustainability Services, EY Oceania
2. **Jono Broome**, Associate Director - Head of APAC Client Advisory, Morningstar Sustainalytics
3. **Antonia Burbidge**, Head of Climate and Nature, Sustainable Business Council of New Zealand
4. **Adam Coxhead**, Head of Sustainable Finance, Bank of New Zealand
5. **Sebastian Gehricke**, Director - Climate and Energy Finance Group (CEFG), University of Otago
6. **David Hall**, Policy Lead, Toha NZ
7. **Temuera Hall**, Portfolio Manager, Tahito Ltd; Chair, Te Kakano Holdings Ltd; Chair, Tupu Angitu Ltd
8. **Jaclyn Margules**, Director - Large Corporates and Sustainability, HSBC New Zealand
9. **Gavin Marshall**, Sustainability Manager, Rabobank New Zealand
10. **June McCabe**, Independent Director, Pou Tahua representative, National Iwi Chairs Forum
11. **Fonteyn Moses Te Kani**, Pou Tiaki - Director Māori Strategy and Indigenous Inclusion, Westpac New Zealand
12. **Greg Munford**, Senior Investment Strategist, Sustainable Investment, NZ Super Fund
13. **James Paterson**, Head of Sustainable Finance, ASB
14. **Caroline Poujol**, Director - Sustainable Finance (NZ), ANZ
15. **Andy Reisinger**, Independent climate change expert
16. **Joanna Silver**, Head of Sustainable Finance, Westpac New Zealand
17. **Frances Sweetman**, Head of Sustainable Investment and Portfolio manager, Milford Asset Management
18. **Jorge Waayman**, Manager - ESG Research, Harbour Asset Management
19. **Sue Walker**, Senior Manager - Responsible Investment, Bank of New Zealand

Role of the Centre for Sustainable Finance: Toitū Tahua (CSF)

CSF is an independently governed charitable trust, established in 2021 by leading financial institutions and philanthropies to advance progress toward the recommendations of the Sustainable Finance Forum. The ITAG was set up and convened by CSF, which has provided secretariat services to the ITAG to enable them to consider, review, provide input, prepare, and endorse the ITAG technical advice and recommendations.

CSF is ultimately responsible for delivery of the ITAG recommendations report and for engaging technical partners, including Climate Bonds, to support its development. CSF provides transparency of the project and the ITAG. A taxonomy sub-committee of the CSF Board reviews the final ITAG advice and report.

Role of the Climate Bonds Initiative (Climate Bonds)

Climate Bonds is an international organisation working to mobilise global capital for climate action. The mission is to help drive down the cost of capital for large-scale climate and infrastructure projects and to support governments seeking increased access to capital markets to meet climate and GHG emission reduction goals.

Born out of a need for independent, science-driven guidance on the assets and activities that are consistent with a transition to a low-carbon economy, Climate Bonds carries out market analysis, policy research, market development; advises governments and regulators; and administers the global Climate Bonds Standard and Certification Scheme. Climate Bonds has grown since into a 100+ strong global team of passionate individuals working at the forefront of climate finance, including a Taxonomy Team directly focused on developing and contributing to sustainable taxonomies around the world.

Over the years, Climate Bonds has gained extensive experience with the development of many taxonomies including the EU Taxonomy, the Common Ground Taxonomy (CGT), the Australian Taxonomy as well as a host of other countries and regions (e.g. Cambodia, Canada, Chile, China, Columbia, Malaysia, Mexico, Peru, Rwanda, Singapore, Sri Lanka, Thailand Phase I and Phase II, UK).

Climate Bonds was therefore selected by CSF to provide technical support to the second phase of the development of the NZ Taxonomy in order to:

- Support the development of non-binding ITAG design advice ("ITAG Report") on the NZ Taxonomy's design.
- Prepare and facilitate ITAG meetings and related papers and resources to enable the ITAG to align on its advice.
- Advise on trans-Tasman alignment between the emerging Australian and NZ taxonomies and other key considerations for international interoperability.

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

iwi/Māori knowledge

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 & Fishery ▪ 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></p> <p>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></p> <p>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></p> <p>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></p> <p>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></p> <p>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></p> <p>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>

Principles

The NZ Taxonomy should be based on five core guiding principles:

Credibility – Mana.

Applying an evidence-based approach together with international best practices and standards to attract and direct the flow of international capital towards green solutions. The NZ Taxonomy needs to be transparent in its governance structure and content, especially in how the TSC are designed to give effect to the NZ Taxonomy's purpose and reflect the needs not only of the finance industry but also of investors (including KiwiSaver and retail investors) and civil society. Strong safeguards need to be in place to ensure political and industry influence is limited.

Usability – Whakamahi.

The NZ Taxonomy should be easy to use and fit-for-purpose. The TSC need to be easily understood by a spectrum of different end users and promote data and metrics that are easy to report against.

Interoperability – Tuhono.

As much as possible, the NZ Taxonomy should align with international standards and best practices for the design of its structure, the components of the TSC, DNSH and MSS. It should promote interoperability with Australia (Trans-Tasman) as well as with NZ's main trading partners (EU, UK, China) and other benchmark taxonomies in the Asia Pacific Region (APAC) such as Singapore.

Culture – Ahurea.

Human society depends on nature. We need to establish and learn from cultures in which nature is not seen simply in monetary terms. Indigenous cultures and rights are a core principle underlying the entire NZ Taxonomy. Iwi and Māori leaders will be represented in all governance tiers, and indigenous views of nature will be integrated in the design of the TSC.

Prioritisation – Whakarite.

Prioritisation should determine both the selection of environmental objectives the NZ Taxonomy should focus on at first and the sequencing of the design of the TSC, based on which sectors of the economy are a priority for the NZ Taxonomy.

ITAG Recommendation 1

The Principles of the NZ Taxonomy should be:

- Credibility – Mana
- Usability – Whakamahi
- Interoperability – Tuhono
- Culture – Ahurea
- Prioritisation – Whakarite

ITAG Recommendation 2

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.

Purpose

The main drivers for the development of the NZ Taxonomy are:

1. Mobilising and directing international and domestic capital flows to build the type of infrastructure, systems, products and services required for a low-emissions future with nature at the centre of the economy.

2. Alignment with the goals of the Paris Agreement to keep temperature well below 2 degrees and pursue efforts to limit warming to 1.5 degrees – with a focus on climate mitigation and adaptation and resilience (A&R) as per Agreement.

ITAG Recommendation 3

The purpose and outcomes of the NZ Taxonomy are:

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:

- Building a low-emissions, Paris-aligned future;
- Restoring nature; and
- Upholding the rights and interests of indigenous people of the land.

Objectives

A taxonomy's objectives are a key part of its interoperability with other benchmark taxonomies. Climate change mitigation is generally the most common environmental objective because it is easier to determine the substantial contribution economic activities make to it (i.e. existing best practices, interoperable criteria and thresholds, robust and credible approach).

A&R is a key priority objective for NZ, but there is still a lack of international consensus around what substantial contribution to A&R means given its highly contextualised nature. Therefore, prioritisation and sequencing of work will be important as the development of criteria for some environmental objectives will run to different timelines due to lack of clear, applicable international precedents and other complexities.

Regarding social objectives, the NZ Taxonomy should follow international convention by focusing initially on environmental objectives, but it should address social components through the development of MSS. Some taxonomies (e.g. Mexico) have sought to include social objectives, but they are considered at the entity level rather than at the activity level, which is not the current mandate or focus of the proposed NZ Taxonomy. Any expansion of the NZ Taxonomy to include social objectives could be further addressed in the next phase of its development process.

The NZ Taxonomy should also include broader environmental objectives as risk mitigants through the development of the DNSH component. More specifically, the DNSH makes sure the design of substantial contribution criteria to one environmental objective does not cause harm to other environmental objectives. In addition, based on the experience of the EU with the development of DNSH criteria, this component of the NZ Taxonomy should be designed in a way that is easy to implement, in order to avoid ambiguity and lack of applicability. As much as possible, the NZ Taxonomy should draw from and align with international substantial objectives and incorporate iwi/Māori understanding and knowledge to ensure local relevance.

ITAG Recommendation 4

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):

- 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

iwi/Māori knowledge

Sector prioritisation

The coverage or boundaries of a taxonomy is the sectors and subsectors for which TSC will be developed and proposed. While a taxonomy can, in principle, cover any number or types of sectors, most countries prioritise sectors that are most relevant to their economy based on a range of factors.

The ITAG developed a sector prioritisation matrix using the Chilean example⁶ as a starting point. Potential economic sectors were mapped against the following:

- **Bank lending**
- **Direct dependency on biodiversity**
- **Employment generation (including number of people employed and number of Māori employed)**
- **Existing domestic guidelines and frameworks**
- **Export value**
- **Foreign direct investment (FDI)**
- **Future innovation**
- **GDP contribution**
- **Importance to Māori enterprises**
- **Inclusion in banks' sector pathways**
- **Total GHG emissions**
- **Waste**

Availability of data against these factors placed a constraint on the depth of insight from the mapping exercise. The ITAG undertook further validation and prioritisation through a survey, in which they each ranked sectors in order of relative importance.

It is important to note that the NZ Taxonomy will be a living document that is periodically updated and expanded to cover an increasing number of activities and TSC for environmental objectives, other than mitigation.

ITAG Recommendation 5

The priority sectors for developing the NZ Taxonomy are:

- Agriculture, Forestry & Fishery
- Transport
- Construction & Real Estate activities
- Energy
- Industrial Manufacturing

⁶ Climate Bonds Initiative, Inter-American Development Bank, Chilean Ministry of Finance, and Green Finance Public-Private Roundtable (La Mesa) (2021), [Taxonomy Roadmap for Chile](#).

Definitions

Categorisation framework – Australian and New Zealand Standard Industrial Classification (ANZSIC)

ANZSIC has been developed for use in the compilation and analysis of industry statistics in Australia and NZ. It is the primary classification system used by the Government, financial institutions, and corporations for collecting, analysing, and reporting economic activity data.

ANZSIC is comparable internationally by aligning the classification, as far as possible, with the International Standard Industrial Classification of All Economic Activities (ISIC).

ITAG Recommendation 6

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.

Usability

Usability is the term used to define how well a taxonomy can be applied and integrated into a market. Given that a taxonomy can be both a technical document/tool to be used by institutional investors and smaller operators to develop their own green investment strategies as well as a policy tool, usability refers to the ability of a taxonomy to be used as both or either of these tools – i.e. how practical the criteria are to measure and report on (as a technical tool) as well as how practical the reporting requirements are (as a policy tool).

Usability is a major topic of discussion around the world, but it is epitomised in the EU where the regulated nature of the EU Taxonomy has meant that usability remains a challenge that is in the process of being resolved. The EU Platform on Sustainable Finance (PSF) has put forward an extensive paper which provides a set of recommendations to improve the usability of criteria, DNSH tests and the EU Taxonomy regulation and how it is applied. By contrast, in jurisdictions where taxonomy use is not mandated, the design aspects are even more critical as the simplicity and technical usability of the taxonomy become key drivers of its take-up.

Interoperability is the term used to describe the ability for a taxonomy to be used and understood across borders. If taxonomies differ substantially from each other and interoperability is low, this will negatively impact the ability for the taxonomy to be used as a tool to facilitate cross-border capital flows.

ITAG Recommendation 7

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.

ITAG Recommendation 8

The NZ Taxonomy should be linked to disclosure requirements – e.g. disclosure standards and guidance issued by the External Reporting Board.

ITAG Recommendation 9

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.

Application

The application of a taxonomy refers to how the taxonomy is used within a market. In particular:

- Who should use it? e.g. corporates and borrowers, banks, investors, governments etc.
- What should it be used for? e.g. classifying bonds, consistency in corporate disclosures and transparent reporting, etc.
- Is it mandatory or voluntary?
- Target setting for investment industry, used to commit capital to climate solutions.

This is the 'ruleset' around the taxonomy and goes beyond the taxonomy as a technical document and into its uses within the market.

Voluntary or mandatory application

The decision of whether or not the NZ Taxonomy will be voluntary or mandatory is beyond the remit of the ITAG. Nonetheless, the relative merits and pitfalls of voluntary or mandatory use of the NZ Taxonomy were discussed at length by the ITAG.

The merits of mandating the NZ Taxonomy included that it would create comprehensive data that could be a decision-making tool useful for a range of stakeholders. It would also create a level playing field across users and ensure consistent take-up of the NZ Taxonomy among the core user groups.

The downsides of mandating it included that it may be costly to comply, particularly in the short term, and that mandating is a means to an end that could be achieved with other solutions. Furthermore, there are advantages to putting the NZ Taxonomy out for implementation by users and allowing time to assess its usability before it is mandated.

The ITAG also discussed the possibility of conducting a pilot project with a small group of financial institutions who could volunteer to test the application of the NZ Taxonomy, similar to what was conducted in Colombia. The results of the pilot could be made available publicly and could trigger the modification of the NZ Taxonomy if critical issues are identified.

ITAG Recommendation 10

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.

Application

Use cases: Debt markets, corporate disclosure or other uses

A taxonomy is, at its core, a technical document that could be applied across a range of uses including:

- Green bonds, as a document defining what is exactly included in a green bond (i.e. its underlying projects and assets) beyond the broad Green Bond Principles.
- Investment fund alignment, demonstrating how investment funds such as KiwiSaver are invested in taxonomy-aligned activities.
- Corporate disclosures, as a document defining how corporate define green business lines.
- Green labels, helping to evidence the green/sustainability labels of financial products, fund etc. A taxonomy can be particularly useful to better define green or sustainable products in NZ.
- Policy tool to define which types of activities receive incentives relating to green growth etc.

While the NZ Taxonomy can be broadly applied, the development process would be streamlined with clarity around its ultimate use.

ITAG Recommendation 11

The NZ Taxonomy should be designed for a broad range of applications, not just debt markets.

ITAG Recommendation 12

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.

Eligibility

According to the EU Taxonomy, an activity can be taxonomy-eligible in three different ways:⁷

1. **Substantial contribution:** The activity meets the TSC as it provides substantial contribution to one of the environmental objectives of the taxonomy.
2. **Enabling:** The activity directly enables another activity to make substantial contribution to one of the environmental objectives of the taxonomy, and it:
 - Does not lead to lock-in of assets that undermine long-term environmental goals, and their environmental impact must be positive over the life cycle (i.e. the benefit that is enabled must be larger than the impact of the enabling activity).⁸
 - Example: Manufacturing of electric batteries has a relatively high level of GHG emissions throughout its lifecycle analysis, but it enables other economic activities to decarbonise, such as private land transport (i.e. electric vehicles).
3. **Transition:** An activity for which there is currently no technological or economically feasible low carbon alternative but can decarbonise further over time as technologies are developed, as long as it:
 - Does not hinder the development of low-carbon alternatives.
 - Does not lead to the lock-in of carbon intensive assets.
 - Example: Cement manufacturing is transitional because cement production is a necessary activity and there are no currently available large-scale replacement/alternative material that is net zero (please see the Transition section below).

There are typically three categories/approaches for determining eligibility:

1. **Technical screening criteria:** They generally refer to numerical thresholds that allow for a simple binary assessment – the activity either meets the threshold or it does not. Thresholds-based criteria are relatively easy to use and allow for very little room for interpretation so that, in practice, they reduce the risk of greenwashing. However, they tend to be more data intensive.
2. **Whitelists:** Lists of automatically aligned technologies or measures that are prescribed by the taxonomy. They tend to be very easy criteria to use when data availability is a hurdle, because the deployment of those technologies essentially act as a proxy for decarbonisation. Whilst usable, whitelists do not prescribe how the technologies included in a whitelist need to be used and, therefore, they provide less safeguards against greenwashing compared to the threshold-based approach.
3. **Principles-based:** Taxonomies that features principle-based criteria tend to be quite high-level and not very prescriptive. The idea is that the taxonomy is flexible to accommodate a broad spectrum of users. Whilst easy to use, principle-based criteria leave a lot of room for interpretation to the end user and may easily allow for greenwashing and inconsistency of application.

ITAG Recommendation 13

The NZ Taxonomy should adopt an eligibility approach based on technical screening criteria that are binary, credible and internationally recognised.

ITAG Recommendation 14

The technical screening criteria can be complemented by whitelists (technologies or measures) where data is not available.

⁷ Joint Research Centre – European Commission (2022), [Development of the EU Sustainable Finance Taxonomy - A Framework for Defining Substantial Contribution for Environmental Objectives 3-6](#), page 10.

⁸ Joint Research Centre – European Commission (2022), [Development of the EU Sustainable Finance Taxonomy - A Framework for Defining Substantial Contribution for Environmental Objectives 3-6](#), page 10.

Transition

Transition indicates the movement of an economic activity towards minimum emissions aligned with the long-term temperature goal of the Paris Agreement. While it is clearly an aim of transition-related policies, incentives, regulation and taxonomies to support and facilitate ambitious movements towards or below net zero, the key challenge for a taxonomy is how to recognise this movement with criteria or thresholds that are static at a point in time.

According to the EU Taxonomy,⁹ a transitional activity qualifies as substantially contributing to climate change mitigation if it:

“Supports the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels, including by phasing out GHG emissions, in particular emissions from solid fossil fuels, and where that activity:

- *Has GHG emission levels that correspond to the best performance in the sector or industry;*
- *Does not hamper the development and deployment of low-carbon alternatives; and*
- *Does not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets.”*

In practice, there are some sectors of the economy that are difficult to rapidly decarbonise with currently available technologies (also called hard-to-abate sectors). Therefore, the transition finance label seeks to move capital towards activities that are driving ambitious emissions reductions (towards a Paris-aligned pathway) within a specific period, even though those activities currently still generate substantial emissions. A transition label can facilitate the decarbonisation of high-emission industries such as steel, cement, aviation, agriculture, etc.

While almost all taxonomies include hard-to-abate sectors and transition concepts in some way, several taxonomies utilise specific transition categories to distinguish these from green/Paris-aligned activities. These include ASEAN, Australia, and Singapore, while Canada has developed a methodological approach to transition.¹⁰ The most commonly used approach to label transition activities is the traffic light system, where activities are subdivided into three categories:

Green: These are activities that currently substantially contribute to one of the environmental objectives of the taxonomy. This means that the activities are aligned with the long-term temperature goal of the Paris Agreement.

Amber: These are activities that currently still operate at substantial emissions and have no low carbon alternative but that are a necessary part of the economy and societal well-being at present and that are:

- Moving rapidly towards a green transition pathway within a predetermined time period (sunset date); and/or
- In the short-term, encouraging significant GHG emissions reductions within a specific sunset date.

⁹ European Union (2020), [Regulation \(EU\) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable Investment, and Amending Regulation \(EU\) 2019/2088 \(Text with EEA Relevance\)](#).

¹⁰ Sustainable Finance Action Council (2022), [Taxonomy Roadmap Report: Mobilising Finance for Sustainable Growth by Defining Green and Transition Investments](#).

Transition

An amber label transition cannot last indefinitely. As amber transition activities are not yet aligned with a 1.5-degree trajectory, at some point, they will need to be on a trajectory consistent with the Paris Agreement. To ensure this, most taxonomies propose a sunset date for the amber category whereafter, it ceases to exist, and the activity is either aligned with the green category or it becomes ineligible/excluded. A sunset date is determined at the sector and activity level.

Red: These are activities that are not compatible with a net zero future in 2050. Generally, the only way for them to be aligned with a 1.5-degree future is for them to be phased out, because their GHG emissions cannot be reduced such as in the case of most fossil fuels (including Scope 3 emissions).

By contrast, the EU Taxonomy does not explicitly label activities as transitional or employ the traffic light system. However, it does use the best-in class approach for activities where low-carbon alternatives are not widely available (for instance, cement manufacturing). This is done by identifying the top 10 percent or 15 percent of the best available performers within a sector or activity and then, using their GHG emissions level as a baseline, drawing a trajectory towards zero by a specific sunset date.

Defining the transition category is complex. The ITAG members recommend that the NZ Taxonomy should include a transition category, however the exact methodological approach to transition needs to be further developed in Phase Three of the NZ Taxonomy design process. The ITAG has also reached consensus on the need to set a high bar for transition finance to ensure it drives material step changes to emissions beyond business as usual and to avoid any risks of greenwashing.

Finally, the ITAG has also considered the opportunity cost of not defining transition finance – until financial institutions have clarity about what transition means for the NZ Taxonomy, they probably will not have confidence to invest in the innovation and products that are required to finance transition. In this sense, the NZ Taxonomy can provide guidance to the market if a robust approach to transition is designed.

ITAG Recommendation 15

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.

ITAG Recommendation 16

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.

Governance

A robust governance structure is key to ensure the success and credibility of a taxonomy. It should safeguard the transparency and scientific rigour of the way the TSC, DNSH and MSS are designed as well as ensuring that the taxonomy is maintained and periodically updated. The governance structure and its rules are generally confirmed at the preparatory stage of the taxonomy design phase.

Based on existing models, taxonomies are often developed as a partnership between experts or industry-led groups and the government of a specific country or jurisdiction. In addition, the process of developing a taxonomy should be highly consultative both in terms of how its different components (i.e. TSC, DNSH and MSS) are designed as well as in terms of how the general public is involved in the provision of feedback through consultations.

Generally, the governance structure of a taxonomy is focused on the interaction and clear demarcation of responsibilities between different groups. ToR are created in order to clearly describe the tasks and responsibilities of each group whilst their membership is made publicly available. It is therefore crucial that the governance structure is transparent and collaborative in order to ensure effective checks and balances amongst the different groups.

More in detail, taxonomies are usually mandated and overseen by the government or regulator of a country or jurisdiction (Tier One – for instance, the European Commission or the Hong Kong Monetary Authority). A project execution or coordination body (Tier Two) is in charge of the delivery of all the tasks involved in the development of the taxonomy as well as the review and consolidation of technical feedback. The body is also responsible for creating the first draft of the taxonomy document.

Then, a group(s) consisting of scientists, academics, representatives of industry and of the financial sector (Tier Three) is responsible for the design of the TSC, DNSH and MSS components of the taxonomy. Safeguards against political intervention should be established to protect the integrity of Tier Two and Tier Three groups, as well as minimising conflict of interest to maintain the integrity of the taxonomy.

For instance, the EU initially set up the Technical Expert Group on Sustainable Finance (TEG) which was then replaced by the PSF, both are responsible for designing and developing the EU Taxonomy whilst coordinating several Technical Working Groups (TWG) mandated to design its TSC, DNSH and MSS. The work of the TEG/PSF is overseen by the European Commission who is responsible for embedding the EU Taxonomy into EU law, for designing related regulations such the EU Taxonomy Delegated Act (2021) and for the long-term maintenance and update of the EU Taxonomy.

The Singaporean Taxonomy is overseen by the Monetary Authority of Singapore (MAS) and the development of the TSC was undertaken by the Green Finance Industry Taskforce supported by Climate Bonds as an external consultant. In the UK, the British Government mandated the Green Finance Institute (GFI) to coordinate the design and development of the UK Taxonomy whilst the Department for Environment, Food and Rural Affairs (DEFRA) is designing the TSC in collaboration with sector-specific advisory groups.

Governance

The development of the Australian Taxonomy is overseen by the Australian Council of Financial Regulators' Climate Working Group (CWG) which provides final endorsements. The Taxonomy Technical Expert Group (TTEG) provides strategic direction and technical feedback on the design of the Australian Taxonomy via its 25 members, comprising experts in the fields of finance, climate change, human rights, environmental science and policy, amongst others. The TSC, DNSH and MSS are designed in consultation with sector-specific Technical Advisory Groups (TAGs) and supported by Climate Bonds as an external consultant.

Following these international examples, it is proposed that the NZ Taxonomy adopts a three-tiered approach to its governance structure:

- Tier One: This represents the owners of the NZ Taxonomy document who oversee its development and update. These stakeholders would be expected to be a Government body or a committee consisting of members of different Government agencies (such as the Treasury, MfE, the Reserve Bank, etc.) and utilise existing mechanisms for Crown-Māori engagement such as the National Iwi Chairs Forum Pou Tahua. They provide strategic direction to the NZ Taxonomy and endorse its objectives whilst also ensuring it is aligned with the national goals and policies of the country. The Tier One group focusses on the process rather than the content of the NZ Taxonomy i.e. if the group chooses not to endorse the NZ Taxonomy, they would need to specify in what way the NZ Taxonomy process has not been followed correctly rather than expressing an opinion on the scientific rigour of the content of the NZ Taxonomy.
- Tier Two: A body or committee that oversees the design and development of the NZ Taxonomy. The group serves as a coordinating link between Tier One, who needs to be regularly updated on the development of the NZ Taxonomy, and Tier Three (see below), who co-designs its content. The membership of the group can be comprised of a variety of different stakeholders, including industry, finance, iwi/Māori, civil society, think-tanks and Government agencies, depending on their expertise.
- Tier Three: Members of this group generally design or co-design the different components of the NZ Taxonomy (TSC, DNSH and MSS). They are often supported by an external consultant and are generally not just one single group but are a collection of sector-specific technical working or advisory groups. For instance, the EU Taxonomy created a series of technical working groups on usability, transition, social components as well as A&R, transport, energy, manufacturing etc.

In this context, the role of the Government is crucial to ensure the NZ Taxonomy is endorsed at the political level in order to provide legitimacy to the process and to provide a predictable source of funding to guarantee a stable environment for the development of the NZ Taxonomy. However, the Government should not drive the design of the content of the NZ Taxonomy. Industry and political influences should not hinder the independence of the body developing the TSC.

Governance

ITAG Recommendation 17

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:

- 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.

ITAG Recommendation 18

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).

List of acronyms

ACRONYM	FULL NAME
A&R	Adaptation and Resilience
ANZSIC	Australian and New Zealand Standard Industrial Classification
APAC	Asia Pacific Region
ASEAN	Association of Southeast Asian Nations
CBAM	Carbon Border Adjustment Mechanisms
CGT	Common Ground Taxonomy
CSF	Centre for Sustainable Finance: Toitū Tahua
CWG	Climate Working Group
DEFRA	Department for Environment, Food and Rural Affairs
DNSH	Do No Significant Harm
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GFI	Green Finance Institute
GHG	Greenhouse Gas
ISIC	International Standard Industrial Classification of All Economic Activities
ITAG	Independent Technical Advisory Group
MAS	Monetary Authority of Singapore
MfE	Ministry for the Environment
MSS	Minimum Social Safeguard
NZ	Aotearoa New Zealand
PSF	Platform on Sustainable Finance
TAG	Technical Advisory Group
ToR	Terms of Reference
TEG	Technical Expert Group
TSC	Technical Screening Criteria
TTEG	Taxonomy Technical Expert Group
TWG	Technical Working Group
UK	United Kingdom
US	United States



Ururangi



Waipuna-ā-rangi



Hiwa-i-te-rangi



Matariki



Tupu-ā-rangi



Tupu-ā-nuku



Waitī



Waitā



Pōhutukawa

