

Red flags - greenwashing

OVERVIEW

Overview of greenwashing

Overseas, greenwashing trouble is brewing. Banks have made headlines for signing up to a global climate pledge but continuing to invest in coal mining and coal power. The Australian Competition and Consumer Commission launched a crackdown on greenwashing in October 2022. It will review over 200 company websites to identify misleading or deceptive ESG claims with possible enforcement action to follow.

87%

Sustainability is the mainstream concern for 87% of New Zealanders. 87% believe that New Zealand as a country should aim to be more sustainable.

47%

At least 47% of New Zealanders say they care about sustainability when making decisions about brands and which products they will purchase.

49%

When choosing a financial institution, 49% of New Zealanders are unlikely to look beyond the institution's website for information on its sustainability practices.

Against this backdrop, and the ever increasing importance New Zealand consumers place on sustainability credentials, we should be in no doubt that greenwashing will be front of mind for New Zealand regulators.

The regulators have already been carefully scrutinising greenwashing claims, putting in place a variety of legal frameworks and guidelines to make ESG claims more transparent and accessible, and to clamp down on misleading and deceptive practices. Investigations, enforcement actions and complaints in this area are likely to be on the rise in 2023 and beyond.

Financial Institutions

UPDATE

Financial Markets Authority (FMA)

The FMA is sharpening its focus on greenwashing. A media release issued in May 2023 by Paul Gregory, Executive Director Response and Enforcement, could be seen as a deliberate warning flag to providers of financial products and services, that the FMA is now in full-swing in terms of monitoring and responding to instances of greenwashing.



Greenwashing, which can be defined as 'misleading or false claims about social or environmental benefits or impact', goes to the heart of fair dealing. The overall impression created by marketing material is critical.

The FMA notes that "choosing and using financial products is hard" and when a claim as to ethical or sustainable impact is introduced, things become even more complicated, leading to many consumers essentially making a "leap of faith" when investing.

The FMA is sharpening its focus in this area and there are broader policy and consumer tailwinds for claims to be articulate, accurate and meaningful.

Three prior publications by the FMA which, taken together, indicate an increasing focus on ESG claims in relation to financial products. They are:

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14 Dec 2020 Disclosure framework for integrated financial products.
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28 July 2022 Integrated financial products: Review of managed fund documentation.
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28 July 2022 Ethical investing journey research.

EXPECTATIONS

Disclosure framework - 14 December 2020

This gives guidance on the FMA's advertising and disclosure in respect of financial products that incorporate non-financial factors, which it refers to as an 'integrated financial product' (IFP).

Integrated financial products - 28 July 2022

This is a review of disclosure practices for a sample of managed funds (including KiwiSaver funds) that use an IFP label in their name or description (e.g. sustainable, ethical, green).

Ethical investing journey - 28 July 2022

This is a report which contains the findings from a qualitative study interviewing a range of New Zealanders about their experience of, and journey to, buying an ethical investment.

“ The FMA expects the industry to be making **high-quality disclosure to provide insight into – and examples of – how future investment choices will be made, not just the make-up of the fund at a point in time.** ”



The FMA expressed concern following an investigation into what it would be like for an investor trying to make investments that better fit their values. Improved disclosure is intended to create a more user-friendly environment that is free of extensive jargon and facilitates the comparison of different investment options.