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Investments promising social or environmental benefits need tougher anti-greenwashing rules

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Investment funds increasingly promise to deliver social or environmental benefits alongside financial returns. Regulators rightly ask if these "impact investment" claims are accurate.

But we also need to ask what happens when an investment's promised impact fails to materialise, or when pursuing it causes unintended harm.

This regulatory blind spot has practical consequences. Claimed or promised social or environmental impacts influence where people put their retirement savings. They also influence where governments, foundations and institutional investors direct capital.

The risk of greenwashing – where an investment is presented as more sustainable or socially responsible than it really is – needs to be carefully monitored.

Australia's enforcement regime shows the importance of scrutinising these kinds of claims. Last month, a court ordered Fiducian Investment Management Services to pay A$7.3 million in penalties over a fund promoted as ethical and socially responsible.

The court found the fund had invested via other related funds that held companies earning revenue from fossil fuels. The court also found Fiducian failed to adequately monitor whether these investments were consistent with the fund's stated objectives.

This followed earlier court-imposed penalties of $11.3 million against Mercer Superannuation and $12.9 million against Vanguard Investments Australia for misleading statements about sustainability made in their investment offerings.

New Zealand is also strengthening expectations. Financial Markets Authority guidance issued in May 2026 says investment funds' sustainability-related claims should be "clear", "substantiated" and "consistent". Issuers of such funds also remain responsible when relying on third-party data, management or assurance for the claims being made.

These developments should make greenwashing more difficult. But even accurate disclosure does not guarantee a fund's positive impact.

Five ways impact investing can go wrong

Our recent research reviewed 56 studies of impact-related risk and identified five interconnected ways impact investing can fail.

1. Positive impact risk: the intended benefit is not achieved – for example, an investment in a youth employment scheme may fail to deliver the expected improvement in employment outcomes.

2. Negative impact risk: pursuing an intended benefit causes unintended harm – for example, an ostensibly clean-energy investment producing biomass fuel from rubber trees may contaminate local water supplies through poorly managed operations, harming surrounding communities.

3. Impact evidence risk: claims cannot be reliably measured, attributed or verified. Reports may show different kinds of activity but do not necessarily demonstrate that people's lives improved or ecosystems recovered because of the investment.

4. Impact accountability risk: poorly supported claims, disputed evaluation methods or unclear responsibilities expose investors to regulatory, legal or contractual challenges.

5. Impact legitimacy risk: investors lose the trust of communities, beneficiaries or the public. This can happen even without a legal breach, particularly when stakeholders believe financial returns have been prioritised over public benefit.

These risks are interrelated. Weak evidence may conceal underperformance or harm, eventually leading to regulatory action or loss of public trust.

Ironically, measures intended to show success can also create new risks.

Consider an investment programme in which payments depend on employment outcomes. Providers may focus on participants who are easiest to place in work. Reported performance improves, while those with more complex needs receive less assistance. A system designed to demonstrate impact has instead contributed to exclusion.

Good disclosure is not enough

Anti-greenwashing rules generally ask whether claims are clear, accurate and substantiated. These are essential questions.

But impact-investment governance must go further and ask whether the original assumptions remain plausible, whether harm is emerging, and whether investors can adapt when circumstances change.

Absolute certainty is impossible, but uncertainty must not justify vague promises. The stronger the impact claim, the stronger the supporting evidence, safeguards and accountability arrangements must be.

Based on our findings, we strongly recommend Australia and New Zealand introduce an impact-risk statement for funds making explicit claims. The statement should answer five questions.

1. What could prevent the intended impact?

2. Who might be harmed?

3. How will impact be demonstrated?

4. Who is accountable?

5. How can affected communities influence decisions or seek remedy?

This last question is especially important when considering investments that claim to benefit Indigenous communities. In Aotearoa New Zealand, products invoking Māori wellbeing, values, land or environmental guardianship should meaningfully involve Māori in defining impact and assessing risk.

The Financial Markets Authority already requires care when Māori values and te reo Māori (Māori language) are used in sustainability-related fund disclosures. Comparable principles should apply when investments claim benefits for Aboriginal and Torres Strait Islander communities in Australia.

The impact-risk statement need not begin as a new statutory requirement. It could first be incorporated into regulatory guidance, fund certification and investment approval processes. Funds would later report whether identified risks materialised and how they were managed.

Reporting failure can strengthen trust

Impact reports predominantly showcase success. But acknowledging failed assumptions and unintended consequences could strengthen – not diminish – confidence in impact investing.

Not every shortfall indicates misconduct. What matters is whether investors identified material risks, listened to affected communities, and corrected course when problems emerged.

Greenwashing rules are key to ensuring impact investors mean what they say. Impact-risk statements will help determine if they can deliver what they promise.

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