

# PAS 7340:2020

## Framework for embedding the principles of sustainable finance in financial services organizations – Guide



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# Foreword

This PAS was sponsored by the Department for Business, Energy & Industrial Strategy through its Energy Innovation Programme and industry including Aviva Investors Global Services Limited, Barclay's Execution Services Limited, City of London, Hermes Investment Management, HSBC Global Services UK Ltd, and Lloyds Banking Group. Its development was facilitated by BSI Standards Limited and it was published under licence from The British Standards Institution. It came into effect on 31 January 2020.

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## Relationship with other publications

This is the first PAS within BSI's Sustainable Finance Standardization Programme. The programme is a five-year long initiative focused on the development of globally relevant, consensus-based standards on the subject of sustainable finance. This PAS sets out a framework in the form of guidance and recommendations to support financial services organizations in their sustainable finance efforts, thinking and practices. This framework also informs and supports the development of PAS 7341:2020, *Responsible and sustainable investment management – Specification* (currently in development) which sets out requirements for organizations and their investment managers to conform with during their journey to embedding sustainable investment decisions in their processes.

Further information on this standardization programme is available at: [www.bsigroup.com/SustainableFinance](http://www.bsigroup.com/SustainableFinance)

## Use of this document

As a guide, this PAS takes the form of guidance and recommendations. It should not be quoted as if it were a specification or a code of practice and claims of compliance cannot be made to it.

## Presentational conventions

The guidance in this PAS is presented in roman (i.e. upright) type. Any recommendations are expressed in sentences in which the principal auxiliary verb is “should”.

*Commentary, explanation and general informative material is presented in smaller italic type, and does not constitute a normative element.*

*Where words have alternative spellings, the preferred spelling of the Shorter Oxford English Dictionary is used (e.g. “organization” rather than “organisation”).*

Notes are provided throughout the text of this PAS. Notes give references and additional information that are important but do not form part of the recommendations. Commentaries give background information.

## Contractual and legal considerations

This publication does not purport to include all the necessary provisions of a contract. Users are responsible for its correct application.

**Compliance with a PAS cannot confer immunity from legal obligations.**



# Introduction

## 0.1 Sustainability and finance

The world is currently facing a number of complex and interrelated challenges. A recent climate change review by the World Meteorological Organization [1], noted climate variability and extremes negatively affecting the environment and society with the average global temperature currently estimated at 1.1 °C above pre-industrial levels, and no sign of a peak in global greenhouse gas emissions. There are also major concerns about ecosystem collapse with populations of mammals, birds, fish, reptiles and amphibians having fallen an average of 60% in just over 40 years [2]. Currently 10% of the world's population is estimated to be living in extreme poverty [3] and by 2025 half of the world's population is likely to be living in water stressed areas [4]. There is also a growing world population, expected to reach 9.7 billion in 2050 [5] with all the associated consequences for increased consumption and pollution that entails.

These unprecedented social and environmental threats inform the need for action by the finance sector. Finance plays an important role in society, providing services to investors, lenders and borrowers to ensure the proper management of risk and efficient allocation of capital. Moreover it now has a vital role in the transition to a more sustainable economy that can help address impacts associated with issues such as poverty, inequality, climate change, environmental degradation and prosperity.

Transformational change is needed to equip the sector to address the needs of sustainability and to evolve and prosper during this transition. There are risks to existing business models and practices, but also opportunities in new and developing markets, decoupling economic growth from resource consumption and delivering social benefits. This is being reflected in public concern about the impact of their own investments on people and the planet [6], alongside increasing consumer demand for green financial services and products [7]. Advances in technology, particularly in making data available more quickly at a lower cost, can also support these developments [8].

There are different approaches to transition to a sustainable economy, the benchmark being the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015 [9]. The Agenda

is underpinned by 17 Sustainable Development Goals (SDGs), representing an urgent call for action by all countries in a global partnership. The SDGs are also supported by further specific frameworks such as the 2015 Paris Agreement [10], wherein parties to the United Nations Framework Convention on Climate Change (UNFCCC) aim to strengthen the global response to the threat of climate change [11]. The Intergovernmental Panel on Climate Change (IPCC) Special Report notes that if warming due to human activities continues to rise at the present rate it is estimated to reach 1.5 °C between 2030-2052 [12].

***NOTE Annex A provides further information on the 17 SDGs.***

Finance has been recognized as a key element within the Paris Agreement, which has a goal of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development" [10]. Benefits of this alignment might include delivery of new jobs, growth and productivity alongside climate mitigation and adaptation activities, better access to finance, improved public health, enhanced financial and monetary resilience, improved market integrity and better links between the financial and the real economy [13,14]. This includes the total energy system investment requirement of around \$2 trillion to 2030 to meet Paris Agreement commitments across SDG targets [15] and can include green finance that aims to support economic growth while reducing pressures on the environment by addressing greenhouse gas emissions, tackling pollution, minimizing waste and improving resource efficiency. The UK Green Finance Strategy indicates that the financial system transition involves moving beyond funding of green projects to ensuring climate and environmental factors are fully integrated into mainstream financial decision making across all sectors and asset classes [16].

For the purposes of this PAS sustainable finance is defined as the application of financial services to achieve the goal of sustainability, including the integration of environmental, social and governance (ESG) criteria in business or investment decisions. Sustainable finance also encompasses awareness of and transparency relating to ESG risks and opportunities which might have an impact on the viability of investments and the sustainability of the financial system and their mitigation, the EU High-Level Expert

Group considered sustainable finance in relation to these two imperatives:

*“The first is to improve the contribution of finance to sustainable and inclusive growth as well as the mitigation of climate change. The second is to strengthen financial stability by incorporating ESG criteria into investment decision-making. Both imperatives are pressing, given the rising climate-related risks and degradation in the environment and other sustainability areas” [17].*

The five sustainable finance principles underpinning this PAS are shown in Table 1 and might be familiar to organizations that are already progressing on the journey to sustainable finance. They are intended to be accessible to all actors within the financial services ecosystem, supporting a consistent and comparable approach to the many challenges involved in the transition to sustainability.

**Table 1** – Overview of the sustainable finance principles

Principle	Description
<b>1. Governance and culture</b>	Embed sustainability across the organization, including governance and culture (see 4.1).
<b>2. Strategy alignment</b>	Align the business strategy with overall sustainability objectives, including risk management and products (see 4.2).
<b>3. Impact management</b>	Identify and manage business lifecycle sustainability impacts, dependencies, risks and opportunities (see 4.3).
<b>4. Stakeholder engagement</b>	Work with stakeholders to deliver collaborative solutions and financial system architecture that supports sustainability objectives (see 4.4).
<b>5. Transparency</b>	Operate in a transparent and accountable manner, including public reporting (see 4.5).
<b>NOTE</b> The principles are not intended to be actioned sequentially as numbered, however action against principles 1-3 might help in implementing principles 4 and 5.	

The principles have been designed to guide decisions and activities in organizations that are at different levels in integrating sustainability considerations into their core business practices. They recognize that firms are likely to be at various stages of considering sustainability and that full alignment with frameworks such as the SDGs is ambitious.

## 0.2 Aims of the PAS

This PAS provides a framework for financial services organizations to align their activities and contribute to the transition to a sustainable economy, including the SDGs, the Paris Agreement [10] and other relevant initiatives. It establishes a common terminology and provides guidance on implementing sustainable finance approaches within an organization. It also acknowledges existing initiatives and is intended to promote integration of sustainability within organizations and support efforts to scale up efforts to increase positive impacts across the sector. Annex B provides a subset of current initiatives that might support financial services organizations in building their knowledge in this area.

Through developing a common approach and understanding of sustainable finance the PAS aims to support the development of trust and transparency across the value chain. Offering a holistic view on the relevance of sustainable finance approaches can help organizations see how it impacts their business, both in terms of risk and opportunity. It aims to help organizations address sustainability challenges and encourage industry and societal confidence in how the financial sector is addressing the transition to a sustainable economy.

Important policy and regulatory developments have included the clarification of fiduciary duties to remove the misconception that trustees cannot take into account ESG criteria [18] along with the work of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) [19] in developing climate-related financial risk disclosures for use by investors, lenders, insurers, and other stakeholders. These developments (and others) are being complemented by the actions of individual organizations working to integrate sustainability within their operations. The recognition of sustainability risks and opportunities and their integration into existing management approaches forms an initial focus for action in relation to sustainable finance. Following on from this risk analysis is the identification of areas where the policy and financial system architecture might need to change to achieve sustainability objectives.

Financial services organizations face a number of barriers in achieving these aims, including the recognition that modelling, either of climate science or of other environmental and social risks, has not been adequately integrated into financial models. Other related factors include short time horizons in investment decision making (set against an understanding that decisions made today have longer-term consequences), poorly aligned incentive structures and lack of consistent and comparable data [20].

The guidance provided in this PAS aims to build on a body of work that has included initiatives that apply

to specific areas of financial services including, banking [21], insurance [22] and investment [23], as well as platforms such as the UNEP Inquiry [14] which seek to transform the global financial system to deliver an inclusive, sustainable economy. These initiatives are often supported by substantial resources which might prove helpful for users of this PAS. It also aligns with existing investment concepts such as that of stewardship, involving the responsible allocation and management of capital across the institutional investment community to create sustainable value for all stakeholders [24].



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# 1 Scope

This PAS outlines a framework for, and guidance on, implementing principles and approaches to sustainable finance within financial services organizations. It establishes guiding principles and common terms and definitions related to sustainable finance which can help organizations to:

- develop their understanding of sustainable finance and determine the relevancy of the concept within the individual organization;
- understand what successful sustainable finance practices and activities might look like and how to apply them; and
- develop their own strategies and approaches to embedding sustainable finance in their policies, processes, practices, products, services and value chains.

It aims to facilitate understanding and collaboration within the global financial sector, and ultimately, the alignment of the sector with sustainability objectives. The framework is designed to facilitate global aspirations, by enabling individual organizations to identify, develop and maximize opportunities for addressing sustainability challenges, both in the short and long-term, and in a manner that allows the individual organization to adopt sustainable finance practices. It can be applied to all organizational activities.

This PAS is intended to be used by financial services organizations of any size and type, and may be particularly useful to small and medium-sized organizations. It is applicable to all organizations from across the financial sector, including:

- investment;
- banking;
- insurance;
- intermediaries (e.g. consultants and pensions advisers);
- private and public sector organizations (e.g. voluntary organizations);
- regulators;
- central and local government; and
- professional bodies.

It is also intended to be relevant to business partners and others who provide services and support to the sector.

*NOTE This wider community could encompass, for example, independent advisers, trustees, premises management firms and accounting, legal, marketing and employment services providers alongside sector-specific actors such as claims management firms.*

This PAS is not intended to be used directly by end consumers of financial products or employees of targeted organizations, but might be of use to such individuals when an organization communicates the steps taken to address sustainability challenges.



## 2 Terms and definitions

For the purposes of this PAS, the following terms and definitions apply.

**NOTE** Additional terms and definitions that relate to sustainable finance but are not used in this PAS have been included in Clause 2. These provide a broader view to the terminology being used by financial organizations in relation to sustainable finance. Annex C provides an overview of definitions and their interrelationships.

### 2.1 active ownership

use of the rights and position of ownership to influence the activity or behaviour of investees

**NOTE 1** This can be applied differently in each asset class.

**NOTE 2** For listed equities it includes both engagement and (proxy) voting (including filing shareholder resolutions). For other asset classes (e.g. fixed income), engagement might still be relevant while (proxy) voting might not.

**NOTE 3** The term *stewardship* is also commonly used for such activity.

{SOURCE: PRINCIPLES FOR RESPONSIBLE INVESTMENT ASSOCIATION (PRI) [25]}

### 2.2 circular economy

economy that is restorative and regenerative by design, and which aims to keep products, components and materials at their highest utility and value at all times

**NOTE 1** Implementing the principles of the circular economy in organizations means taking a systemic approach to the design of processes, products/services and business models to create value by enabling the sustainable management of resources.

**NOTE 2** A circular economy is called *restorative* because valuable outputs, such as products, components or materials, get “restored” for use (e.g. reclaimed for reuse, remanufactured or recycled and fed back into the system) rather than extracting further resources.

**NOTE 3** A circular economy is called *regenerative* because living systems are enabled to “regenerate” (i.e. heal and renew) the resources that are consumed (e.g. by feeding back basic nutrients and creating favourable biological conditions).

**NOTE 4** A circular economy enables sustainable growth by making the flow of materials more circular, reducing and ultimately eliminating waste.

{SOURCE: BS 8001:2017, 2.11}

### 2.3 climate finance

local, national or transnational financing – drawn from public, private and alternative sources of financing – that seeks to support reduction in greenhouse gas emissions and other mitigation and adaptation actions that address climate change

**NOTE** Climate finance is needed for mitigation because large-scale investments are required to prevent or significantly reduce emissions. Climate finance is equally important for adaptation, as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate.

{Adapted from: UNFCCC [11]}

### 2.4 environmental, social and governance (ESG) criteria

factors used by investors to assess the sustainability of investments

**NOTE 1** Examples of ESG criteria include:

- a) *Environmental* – climate change, natural resource depletion and environmental degradation (including land use change, habitat loss and species loss);
- b) *Social* – working conditions (including slavery and child labour), local communities, conflict, health and safety and employee relations and diversity; and
- c) *Governance* – executive pay, bribery and corruption, political lobbying and donations, board diversity and structure and tax strategy.

**NOTE 2** ESG criteria relate across the organization's investments and full business value chain activities, from conception of products/services through production to end use and beyond. In the context of greenhouse gas (GHG) emissions this would cover scope 1, 2 and 3 emissions (see 2.7).

{Adapted from: PRI [25]}

## 2.5 green bond

any type of bond instrument where the proceeds are exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible projects with positive environmental outcomes

**NOTE 1** Voluntary process guidelines such as the green bond principles [26] identify core requirements for the issuance of green bonds. These include promotion of transparency and disclosure along with management of proceeds.

**NOTE 2** Green bonds involve binding governance on the use of proceeds.

**NOTE 3** See also climate bonds [27], social bond (2.18) and sustainability bond (2.23).

**NOTE 4** The European Commission Technical Expert Group on sustainable finance proposed in June 2019 that the Commission create an EU Green Bond Standard [28].

{Adapted from: INTERNATIONAL CAPITAL MARKET ASSOCIATION (ICMA) [26]}

## 2.6 greenhouse gases (GHGs)

gaseous constituent of the atmosphere, both natural and anthropogenic, that absorbs and emits radiation at specific wavelengths within the spectrum of infrared radiation emitted by the Earth's surface, the atmosphere and clouds

**NOTE 1** For a list of GHGs, see the latest Intergovernmental Panel on Climate Change (IPCC) Assessment Report [29].

**NOTE 2** Water vapour and ozone are anthropogenic as well as natural GHGs, but are not included as recognized GHGs due to difficulties, in most cases, in isolating the human induced component of global warming attributable to their presence in the atmosphere.

[SOURCE: BS EN ISO 14064-1:2019, 3.1.1]

## 2.7 greenhouse gas (GHG) inventories

list of GHG sources and GHG sinks, and their quantified GHG emissions and GHG removals

**NOTE** GHG sink is defined as a process that removes a GHG from the atmosphere.

[SOURCE: BS EN ISO 14064-1:2019, 3.2.6]

### 2.7.1 scope 1 direct GHG emissions

direct emissions from owned or controlled sources

**NOTE** For example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

### 2.7.2 scope 2 indirect GHG emissions

indirect emissions from the generation of purchased energy, electricity or heat

**NOTE** Scope 2 emissions physically occur at the facility where electricity is generated.

### 2.7.3 scope 3 other indirect GHG emissions

all indirect emissions (not included in scope 2) that occur in the value chain, including both upstream and downstream emissions

**NOTE 1** Examples of scope 3 activities are extraction and production of purchased materials, transportation of purchased fuels and use of sold products and services.

**NOTE 2** Scope 3 emissions are particularly important for financial services organizations because they relate to activities associated with clients.

{SOURCE: GREENHOUSE GAS PROTOCOL [30]}

## 2.8 impact investing

approach where investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return

{SOURCE: GLOBAL IMPACT INVESTING NETWORK [31]}

## 2.9 integration of ESG issues (investment)

systematic and explicit inclusion of material ESG criteria into investment analysis and investment decisions

{SOURCE: PRI [25]}

## 2.10 investee engagement

interactions between the investor and current or potential investees (which may be companies, governments, municipalities, etc.) on issues of concern

**NOTE 1** Engagements can be undertaken to influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.

**NOTE 2** Investors can engage with investees directly in their own name, in collaboration with other investors and through commercial service providers. Comprehensive engagement could include substantive detailed discussions or interactions with a company (e.g. letters, meetings and calls) with time-bound actions and targets.

**NOTE 3** Divestment by the investor is an option if targets are not being achieved.

{Adapted from: PRI [25]}

## 2.11 lifecycle

consecutive and interlinked stages of a product (or service) system, from raw material acquisition or generation from natural resources to final disposal

**NOTE 1** *The lifecycle stages include acquisition of raw materials, design, production, transportation/delivery, use, end-of-life treatment and final disposal.*

**NOTE 2** *Sustainability issues are associated with all lifecycle stages for financial services organizations, however the impacts and risks linked to products and services are particularly important.*

**NOTE 3** *See also 2.1 Note 2 for other concepts.*

[SOURCE: BS EN ISO 14001:2015, 3.3.3]

## 2.12 lifecycle assessment (LCA)

compilation and evaluation of the inputs, outputs and potential environmental impacts of a product (or service) system throughout its lifecycle from acquisition of raw material through to final disposal

**NOTE** *In the context of financial services, downstream impacts associated with clients and upstream impacts associated with procurement are likely to be significant.*

[SOURCE: BS EN ISO 14040:2006, 3.2]

## 2.13 lifecycle GHG emissions

sum of greenhouse gas emissions resulting from all stages of the lifecycle of a product (or service) and within the specified system boundaries of the product

**NOTE** *Service has been added to the definition to clarify its application to financial services.*

[Adapted from: PAS 2050:2011, 3.30]

## 2.14 natural capital

elements of nature that directly and indirectly produce value or benefits to people, including ecosystems, species, freshwater, land, minerals, the air and oceans, as well as natural processes and functions

**NOTE** *Any adverse changes in natural capital have a potential negative effect on the businesses that depend on it.*

[SOURCE: NATURAL CAPITAL COMMITTEE [32]]

## 2.15 responsible banking

alignment of the bank's business strategy with society's goals as expressed in the SDGs and the Paris Climate Agreement [10]

**NOTE** *The six principles of the UNEP FI Responsible Banking Initiative [21] are designed to provide the*

*framework for the sustainable banking system of the future.*

{SOURCE: UNITED NATIONS ENVIRONMENT PROGRAMME FINANCE INITIATIVE (UNEP FI) [21]}

## 2.16 responsible investment

consideration of the impact of material factors, such as ESG considerations, on financial risk and return

**NOTE** *Responsible investment does have similarities with investment approaches such as impact investing, sustainable investment and green investment. While these approaches seek to combine financial return with a moral or ethical return, responsible investment's sole purpose is financial return, arguing that to ignore ESG criteria is to ignore risks and opportunities that have a material effect on the returns delivered to clients and beneficiaries.*

## 2.17 screening of investments

range of investor actions related to the construction of portfolios

**NOTE 1** *Investments may be chosen on the basis of their economic activities (what they produce/what services they deliver) and/or on their business conduct (how they deliver their products and services).*

**NOTE 2** *Screening may be applied at the level of sector; business activity, products or revenue stream; or the company itself; or to certain jurisdictions/countries.*

### 2.17.1 negative/exclusionary screening

omission from a fund or portfolio of certain sectors, companies or practices based on specific sustainability, ethical or other criteria

### 2.17.2 positive screening

investment in sectors, companies or projects selected for positive sustainability, ethical or other criteria

### 2.17.3 norms-based screening

assessment of investments against minimum standards of business practice based on international norms

**NOTE** *Norms-based screening involves either defining the investment universe based on investees' performance relative to international norms related to responsible investment/ESG issues, or excluding investees from portfolios after investment, who contravene these norms. Such norms include but are not limited to the UN Global Compact Principles [110], the Universal Declaration of Human Rights [111], International Labour Organization standards [112], the United Nations Convention Against Corruption [113] and the OECD Guidelines for Multinational Enterprises [114].*

## 2.18 social bond

use of proceeds bonds that raise funds for new and existing projects with positive social outcomes

**NOTE** See also *green bond (2.5) and sustainability bond (2.23)*.

{SOURCE: ICMA [33]}

## 2.19 social responsibility

responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainability, including health and welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour; and
- is integrated throughout the organization and practised in its relationships

**NOTE 1** *Social responsibility is commonly termed corporate social responsibility (CSR).*

**NOTE 2** *Activities include products, services and processes.*

**NOTE 3** *Relationships refer to an organization's activities within its sphere of influence.*

[SOURCE: BS ISO 26000:2010, 2.18]

## 2.20 stakeholder

individual or group that has an interest in any decision or activity of an organization

**NOTE** *Typical stakeholders include customers, owners, shareholders, employees, suppliers, business partners and local communities.*

[SOURCE: BS 8900-1:2013, 2.2]

## 2.21 stranded asset

asset that has suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities

**NOTE 1** *Risks related to a stranded asset might be poorly understood and mispriced, resulting in significant over-exposure to environmentally unsustainable assets throughout financial and economic systems.*

**NOTE 2** *Current and emerging risks related to the environment represent a major discontinuity, able to profoundly alter asset values across a wide range of sectors. These risks can arise from environmental challenges (e.g. climate change, water constraints),*

*evolving social norms (e.g. fossil fuel divestment campaigns) and new regulation (e.g. carbon pricing).*

{SOURCE: SMITH SCHOOL OF ENTERPRISE AND THE ENVIRONMENT [34]}

## 2.22 sustainability

state of the global system, including environmental, social and economic aspects, in which the needs of the present are met without compromising the ability of future generations to meet their own needs

**NOTE 1** *The environmental, social and economic aspects interact, are interdependent and are often referred to as the three dimensions of sustainability.*

**NOTE 2** *Sustainability is the goal of sustainable development (2.25).*

[SOURCE: BS ISO 20400:2017, 3.33]

## 2.23 sustainability bond

bond where the proceeds are exclusively applied to finance or re-finance a combination of both environmental and social projects

**NOTE** See also *green bond (2.5) and social bond (2.18)*.

{SOURCE: ICMA [35]}

## 2.24 sustainability taxonomy

classification system identifying activities, assets and revenue segments that deliver on key sustainability goals based on the eligibility conditions set out by the taxonomy

**NOTE 1** *Designed as a framework on to which existing (and future) definitions that are used in a variety of contexts can be mapped, enabling comparability of different standards and products.*

**NOTE 2** *A taxonomy is a framework that can be applied to a variety of financial instruments.*

**NOTE 3** *The classification system is an evolving tool that requires continuous review and updating.*

{SOURCE: EU HLEG [17]}

## 2.25 sustainable development

development that meets the needs of the present without compromising the ability of future generations to meet their own needs

**NOTE 1** *Sustainable development is about integrating the goals of a high quality of life, health and prosperity with social justice and maintaining the earth's capacity to support life in all its diversity. These social, economic and environmental goals are interdependent and mutually reinforcing. Sustainable development can be*

*treated as a way of expressing the broader expectations of society as a whole.*

**NOTE 2** *The concept of sustainable development arose from the 1987 Brundtland Commission Report Our Common Future [36].*

[SOURCE: BS 8900-1:2013, 2.3]

## 2.26 sustainable finance

application of financial services to achieve the goal of sustainability

**NOTE 1** *Sustainable finance includes integration of ESG practices into business or investment decisions.*

**NOTE 2** *Sustainable finance addresses the financing and investment activities needed to support the SDGs, see also Annex A. Annex B outlines example tools and initiatives that might support organizations and their ESG criteria.*

**NOTE 3** *It includes a strong green finance component that aims to support economic growth while reducing pressures on the environment, addressing greenhouse gas emissions, tackling air, water and soil pollution, minimizing waste and improving resource efficiency. It also encompasses awareness of and transparency on the risks which might have an impact on the sustainability of the financial system and their mitigation [37].*

## 2.27 sustainable insurance

application of activities in the insurance value chain in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with sustainability

**NOTE** *Sustainable insurance is a strategic approach that applies to all activities including interactions with stakeholders.*

[SOURCE: Adapted from UNEP FI [22]]

## 2.28 sustainable procurement

procurement that has the most positive environmental, social and economic impacts possible over the entire lifecycle

**NOTE 1** *Sustainable procurement involves the sustainability aspects related to the goods or services and to the suppliers along the supply chains.*

**NOTE 2** *Sustainable procurement contributes to the achievement of organizational sustainability objectives and goals and to sustainable development in general.*

[SOURCE: BS ISO 20400:2017, 3.38]

## 3 Sustainable finance principles – General

The purpose of the five sustainable finance principles outlined in Table 1, and explained in sections 4.1 to 4.5, is to support financial services organizations in taking action to align their businesses with the transition to a sustainable economy. They also provide clarity to financial services stakeholders (including business partners, suppliers, customers and the wider community) as the basis on which decisions and actions are taken, while providing them with opportunities for direct investee engagement and supportive activity.

The five principles are intended to provide an overarching framework that is supportive of, and consistent with, existing finance sector initiatives, including those that focus on specific activities (e.g. investment management, banking or insurance) or are issue oriented (e.g. climate change).

**NOTE** *Both well-established initiatives such as the PRI [38] and ClimateWise [39] and more recent developments such as the Principles for Responsible Banking (PRB) [21] offer helpful guidance. Newer initiatives can better reflect the current scale and scope of sustainability issues and those with a longer history can illustrate practical implementation challenges and opportunities.*



## 4 Sustainable finance principles – Defined

### 4.1 Principle 1: Governance and culture

Sustainability risks and opportunities arise across the entire business lifecycle in financial services and are relevant to all levels of employees. A supportive governance and culture system is necessary across the business to realize the ambitious goal of sustainable finance.

The organization should have clear, high-level statements of its purpose, values and mission that recognize its sustainability commitment and, coupled with governance, oversight and visible support at Board level, provide a focal point for action, informing its risk appetite and setting the tone for organizational action.

Internal performance management should incorporate sustainability-relevant objectives and seek to recognize and reward positive sustainability outcomes. An organization should offer opportunities for all employees to engage in sustainability activity, not least because of the potential for improving resource efficiency and driving innovation. The organization should implement mechanisms to allow employees, customers, contractors, suppliers and external parties to speak up about concerns in the knowledge they are to be treated fairly.

***NOTE** Recent regulatory interest in financial services culture relates to its important role in avoiding past mistakes following the 2008 crisis and wider efforts to reduce risk. Embedding a sustainability culture based on openness and learning from mistakes could support wider efforts to rebuild trust in the sector.*

### 4.2 Principle 2: Strategy alignment

Business activities should enable and benefit from sustainable forms of development, including those expressed in the SDGs, as well as the Paris Climate Agreement [10] and relevant national and regional frameworks. This involves the alignment of the organization's business strategy with sustainability objectives. This requires the organization to identify suitable objectives and targets on environmental and social concerns, within the context of continual performance improvement. It also requires transparency and accountability, working with stakeholders (including interested parties outside financial services) to support sustainable development.

The organization's strategy, objectives and targets should reflect the maturity of its sustainable finance progress. Targets should be specific, measurable, time-bound and, where possible, science-based (see also 5.1.3.2).

***NOTE** Annex A provides further information on the SDGs.*

Given the evolving policy framework and development of scientific understanding of sustainability, it is important to ensure frequent review of objectives and targets to ensure continuing alignment.

Acknowledging the interrelated nature of environmental and social issues, it should be ensured that focusing action on the most relevant issues does not result in adverse impacts in other areas. For example action on climate change (SDG Goal 13) should not create problems with the decent work and economic growth agenda (SDG Goal 8). Sustainability considerations should be integrated into the organization's risk management strategy given its fundamental importance to financial services, supporting efficient allocation of capital.

Given the nature of financial services, important sustainability impacts, risks and opportunities are likely to manifest through the products and services an organization supplies to its clients. A key task for an organization is to understand and mitigate the risks and take advantage of the sustainability opportunities related to its financial products and services in its overall strategy. These may relate to completely new products and services and/or incorporation of sustainability into existing offerings. It should be acknowledged that, while corporate action on sustainability links to financial risk and opportunity, it might also extend beyond solely financial considerations. This might, for example, reflect the inherent value of sustainability impact reduction, linked to values and purpose, or increased employee engagement.

### 4.3 Principle 3: Impact management

Sustainability impacts, dependencies and risks are often associated only with negative, undesirable outcomes, but the financing of the transition to sustainability also represents a business opportunity (e.g. in developing new products and services). An effective framework

for measurement, monitoring and management of environmental and social impact and risk/opportunity should differentiate between potential negative and positive impacts and ensure that appropriate management approaches are in place for both. These approaches should seek to minimize/mitigate adverse impacts and risks and maximize positive impacts and opportunities.

Environmental and social impacts and risks can arise across all functions of a financial services organization and throughout the business lifecycle. They might be associated with the behaviour of suppliers, advisers or business counterparties, arise from directly owned and managed operations or through influence on the actions of customers or investees.

Driving customer action through the provision of sustainable financial services and products should be reflected in an organization's assessments of significance, nonetheless directly-owned impacts (e.g. building management, employment terms and conditions etc.) and upstream issues associated with value chains should also be addressed.

The degree of the organization's control/influence over impacts should be a factor in determining mitigating actions. For example, where there is direct control over the organization's own carbon footprint, challenging direct impact reduction targets should be set whereas, in areas where influence is the main lever, investee engagement and collaboration activity might be more appropriate.

There might be mismatches between traditional financial risk materiality considerations and the requirements for addressing sustainability. For example, timescales for action under the response to climate change [14] or payment related to ecosystem services [40]. These mismatches should be identified and can then form the basis for the organization's regulatory/policy engagement as well as informing its actions.

#### 4.4 Principle 4: Stakeholder engagement

Engaging with external stakeholders such as regulators, non-governmental organizations (NGOs) and other civil society organizations, in a two-way "educate and inform" approach, can help to understand the sustainability expectations of financial services

organizations. Customers, both retail and commercial, also represent an important stakeholder group.

The organization should ensure that their sustainability activity, informed by an understanding of customer preferences, is communicated externally. This might involve elements of education on the sustainability characteristics of products (e.g. in building the knowledge of financial advisers [6]) alongside other aspects such as risk and return. Stakeholders can also bring specific expertise to help build internal capabilities on sustainability.

**NOTE** *Collaborating with peers and business partners to develop shared tools and approaches has the potential to support both transparency and cost-effective actions.*

#### 4.5 Principle 5: Transparency

Transparency (including public reporting) on progress towards sustainable finance helps to build trust in the business amongst its stakeholders. It also provides benefit in terms of visible evidence of sustainability risk management. Participating in relevant disclosure frameworks, for example the Greenhouse Gas Protocol (GHGP) [41] and TCFD [19], including public reporting of positive and negative impacts against sustainability targets, is a core element of sustainable finance.

Standardized reporting should acknowledge the difference between material financial risks to the organization posed by sustainability and overall sustainability impacts associated with the business.

Acting transparently on public policy engagement and industry standards to ensure alignment with sustainability objectives complements and supports the organization's reporting on impacts and risks.

**NOTE 1** *The OECD Social Impact Investment Transparency Principles indicate that, "Transparency requires regular and standardized reporting by all who seek to be accountable for generating a positive impact from investments" [42].*

**NOTE 2** *Reporting frameworks such as the climate change focused TCFD [19] might be extended to provide broader coverage of environmental and social issues to address overall sustainability requirements.*

**NOTE 3** *Subjecting sustainability actions and reporting to independent review/assurance can help to develop trust and provide insight into potential areas for improvement.*



## 5 How to apply the sustainable finance principles

### 5.1 General

Operational practices within financial services organizations play a critical role in the delivery of sustainable finance. Aligning the five sustainable finance principles (see Table 1) with good practices requires working across operational functions and understanding the links between the business value creation model and sustainability impacts, risks and opportunities. The principles embody an outward looking and collaborative mindset which requires an organization to work with business partners, policy makers, customers and wider society to drive action in areas where it can exert influence as well as control.

The principles are intended to supplement extant sustainability initiatives such as those highlighted in Annex B. Initiatives that have already been adopted by some financial services organizations, include the UN Global Compact [43] and sector developments including the PRI [38], PRB [21] and Principles for Sustainable Insurance [22], as well as the Equator Principles [44] for project finance. Organizations that are already involved with one or more of these initiatives might find their actions to date are aligned with the principles in this PAS.

All organizations, regardless of prior engagement with sustainability initiatives, are likely to find they are at different stages in their progress towards sustainable finance. An early understanding of an organization's current maturity with respect to implementation of the five principles is likely to prove beneficial, not least in identifying areas for priority action.

Completion of a maturity matrix is one approach that can be applied to assess the status of an organizations' sustainability progress. It typically involves completion of a simple matrix with cells identifying different levels of progress against sustainability. The maturity levels in the matrix should be chosen to reflect the needs of the organization to support effective internal application, taking into account factors such as ease of communication and alignment with business strategy. The assessment and format of the matrix is flexible and can be made against individual principles (see Table 2 which mirrors BS 8900-1:2013), against lifecycle stage (see Table 3) or other suitable formats. Assessments may be conducted by business unit or function and then combined to give an overall organization perspective.

It is useful to involve a range of internal and external stakeholders in completing the matrix, seeking consensus on the most appropriate level assignment to activities and/or functions (acknowledging that different parts of the business might be progressing at different rates on their path to sustainability). This exercise should be repeated periodically, for example annually, to assess the organization's progress on the path to sustainable finance.

Table 2 – Principle based sustainability maturity matrix

Principle	Characteristics of development towards exemplary sustainable finance management and practice			
	Minimum involvement		Full engagement	
<b>Governance and culture</b>	Driven by legal compliance, no real recognition as a business with sustainability at heart	Sustainability issues acknowledged in key committees (e.g. audit, risk) Recognition of the importance of staff sustainability learning (specialists and wider workforce)	Senior management visibly champion sustainability internally and externally Support/lobbying for effective public policy development on sustainability	Culture of sustainability embedded at all levels Compensation linked to sustainability performance Value added by sustainability expressed in financial terms
<b>Strategy alignment</b>	A follower, not a leader, no clear consideration of sustainability in strategy	Identified selected products/services with sustainability attributes Sustainability risks and opportunities being identified Commitment to continual sustainability performance improvement	Sustainability aspects of all products and services identified and managed Risks and opportunities identified over short and long term Sustainability integrated into business planning processes	Externally acknowledged leadership position Clear links established between business strategy/vision and sustainability goals
<b>Impact management</b>	Legal compliance Identified individual(s) with responsibility for sustainability management	Sustainability focus on resource efficiency and operational impacts Materiality assessment to prioritize impacts/risks Management of social and environmental issues using standards and/or accepted sustainability approaches	Benchmarking against best in sector Impacts/risks assessed over short- and long-term time horizons (e.g. against SDGs) Full business lifecycle impacts (e.g. Scope 1, 2 and 3 carbon) being managed	Full integration into risk management (including risk appetite and stress testing) Outcome-based short- and long-term targets consistent with external good practice (e.g. science based targets)

Table 2 – Principle based sustainability maturity matrix (*continued*)

Principle	Characteristics of development towards exemplary sustainable finance management and practice			
	Minimum involvement			Full engagement
<b>Stakeholder engagement</b>	Ad hoc responses to challenges/ comments	Progress made in the wider identification of stakeholders Efforts to understand expectations of interested parties including emerging issues	Staff involved in an inclusive process contributing to internal decision making Working with external stakeholders (e.g. trade bodies, NGOs, regulators etc.)	Clear establishment of two-way dialogue with a range of stakeholders using a range of methods
<b>Transparency</b>	Minimal public reporting (e.g. policy statement)	Occasional reporting against core environmental indicators (e.g. operational impacts) Boilerplate statements in financial filings	Regular reporting against external benchmarks (e.g. CDP, GRI, and SASB) including social and environmental issues Internal structures in place to facilitate information sharing across business functions and locations	Relevant and understandable sustainability information available publicly Robust information on sustainability governance, strategy, risk management in routine filings



Table 3 – Lifecycle based sustainability matrix

	Level 1 – Basic	Level 2 – Improving	Level 3 – Engaged	Level 4 – Integrated
<b>Operations (including scope 1 and 2 carbon)</b>	Some business controls in place, operations are legally compliant with environmental and employment related legislation	Manages environmental impacts by considering operational efficiency over the short and medium term  Processes in place to monitor employee engagement and other social measures	Delivers operational efficiency by reducing resource intensity and environmental impacts Improvement targets in place for environmental and social key performance indicators (KPIs) Training and development available for sustainability	Delivering operational efficiency by reducing resource intensity and sustainability impacts to reduce lifecycle costs Social and environmental targets align to company strategy Significant employee involvement in sustainability programme
<b>Clients (including downstream scope 3 carbon)</b>	Processes for identifying regulatory requirements relating to products  The focus is on compliance with legislation	Processes in place to identify and manage sustainability impacts related to products  Guidance implemented on reducing portfolio sustainability impacts	Sustainability impact reduction and opportunities considered at product design stage  Reporting on sustainability impacts associated with client portfolio	Two-way engagement with clients/investees on sustainability issues (including educational aspects)  Sustainability targets in place across portfolio Sustainability integrated into capital models and strategy
<b>Suppliers (including upstream scope 3 carbon)</b>	Some processes in place checking suppliers' sustainability credentials  Ad hoc discussions with suppliers on environmental and social issues	Analyses suppliers' environmental and social impacts. There is some discussion of impacts with key suppliers as part of planned engagement Sustainability management is considered for new contracts	Includes environmental sustainability impacts as part of a wider supplier engagement programme Contractual frameworks support sustainability with regular supplier reviews Sustainability criteria is part of the supplier selection process	Works with suppliers to incorporate sustainability considerations as part of proposal/contract to the customer Collaboration with suppliers on reducing sustainability impacts Capacity building and training supports supply chain integration

### 5.1.1 Principle 1: Governance and culture across the organization

The transition to sustainable finance is challenging, including developing a culture in which all employees have a role in integrating sustainability into their decision making. The organization's vision or values statement that references sustainability is an important element. These statements should be underpinned by the actions of senior managers to encourage a culture that supports employee behaviour consistent with the organization's sustainability priorities.

The organization's Board should consider whether they have access to relevant skill sets and take responsibility for including sustainability objectives within the organization's purpose and strategy, KPIs and milestones, along with sign-off on sustainability coverage within routine disclosures. While maintaining accountability, there may be Board-level designated responsibility to oversee the organization's sustainability approach, strategy, execution, outcomes and reporting.

Effective governance procedures should reinforce an organization's sustainability vision and incorporate, as a minimum:

- assignment of clear roles and responsibilities throughout the organization to promote its sustainability objectives;
- setting up effective management practices in relation to sustainability;
- assignment of adequate resources to develop and monitor sustainability targets; and
- alignment of incentive structures with sustainability targets [21].

**NOTE 1** *The Financial Conduct Authority (FCA) published a discussion paper [45] on transforming culture in financial services intended to provide a basis for stimulating further debate, including consideration of what a good culture might look like.*

**NOTE 2** *Barriers to the integration of sustainability-related issues into governance and culture have been identified as including quantification challenges, organizational silos and organizational biases [46].*

### 5.1.2 Principle 2: Strategy alignment, including risk management and products

The transition to a sustainable economy associated with global alignment to the SDGs has important strategic implications for financial services. In developing an appropriate strategy, organizations need to consider both the associated risks and opportunities that are financially and sustainability related. These include growing markets for finance directed towards the challenges posed by the SDGs alongside potential sustainability risks, for example, resource scarcity and greenhouse gas emissions. An organization's sustainable considerations might be supplemented by the SDG framework, other initiatives including the Paris Climate Agreement [10] or any other national, regional or sector specific initiatives. Where an organization has taken action against any of these initiatives it can form the basis for a gap analysis against the overall guidance of sustainable finance embodied in the five principles in 4.1 to 4.5.

The SDG Compass resource has produced guidance that can support organizations as they aim to align their strategy with sustainability considerations and the requirements of the SDGs [47]. It acknowledges that not all 17 SDGs are equally relevant to individual organizations (see 5.1.3). An assessment of impact (positive and negative) against the SDGs is used to set a series of prioritized strategic goals guided by the principle of maximizing positive impacts and reducing current or potential negative impacts.

The SDG Compass describes the important link between strategy timeframes and the level of sustainability ambition, stating that, "There is a strong argument for making the time horizon long enough to set goals that represent a major turning point for the industry to create a future significantly different from the reality of today" [47]. It accordingly emphasizes the need for short- and medium-term goals to measure progress alongside longer term 2030 oriented goals. The importance of communicating commitment to sustainability considerations is also noted alongside the need for reporting against each of the organization's strategic priorities.

Prudential regulation requires the appropriate management of risks facing the organization, along with the need to hold adequate reserves of capital against these risks. Sustainability issues might pose current or potential financial risk to the organization and the Prudential Regulation Authority (PRA) [48] has proposed that banks and insurers address the financial risks from climate change through their existing risk management framework, in line with their Board-approved risk appetite. An important related development underpinning this view has been the work of the Financial Stability Board in establishing the TCFD [19] whose work aims to identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks (and opportunities).

Given the importance of scenario analysis (see 5.1.3.1) in identifying future sustainability impacts, the outputs from such activity should also be related to existing stress testing and scenario exercises, driven by regulatory capital or internal modelling considerations (as well as identifying likely future opportunities). Full incorporation of sustainability into business strategy might require further development of existing models, tools and metrics supported by research and forecasting capabilities [22]. Stress testing, using a range of carbon prices, can be used to test the business model and financial performance of the organization and those of its clients (particularly in high GHG emitting sectors such as energy, steel, cement etc.) [21].

**NOTE 1** *The TCFD Knowledge Hub is a wide-ranging source of material relating to TCFD implementation, including guidance on scenario analysis, case studies and learning resources.<sup>1)</sup>*

**NOTE 2** *While TCFD [19] is primarily focused on climate change, the approach it exemplifies might be extended to apply to the wider set of environmental and social risks associated with sustainability.*

Compliance with prudential regulation (implying as it does an appropriate assessment of risk and capital) forms a starting point for sustainable finance, however organizational action needs to go beyond this. The organization should have an ongoing process of performance improvement and target setting in order to achieve their aims of sustainable finance. Any disconnect between financial risk and impact-based assessments of sustainability should therefore be identified and understood. While a particular sustainability issue might not appear on an organization's risk register and/or might not be identified as material to current business plans or products it might be associated with major impacts and/or be linked to future action required to achieve sustainability considerations. In such cases the need for discretionary action should form part of the organization's sustainability strategy.

The transition to sustainability also represents a major source of opportunity and competitive advantage. This reinforces the need to ensure that strategic planning and innovation activities are fully engaged and resourced. In considering the development of new products (and the adaptation of existing offerings) a number of barriers have been identified. The importance of access to adequate, reliable data has been highlighted [6], along with the potential role that could be played by new technology (fintech) in meeting this need [50]. Concerns over regulatory approval can be addressed through participation in schemes such as the FCA's Green Fintech Challenge that aims to support firms requiring specific regulatory support in developing innovative green solutions [51]. The challenge in fintech supporting sustainable finance innovation has been identified as being primarily one of working across sectors [52].



<sup>1)</sup> Further information on the TCFD Knowledge Hug is available from: <https://tcfdhub.org> [49].

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Examples of innovative products include loan instruments which incentivize the borrower's achievement of sustainability performance objectives [53], some of which have two-way pricing mechanisms that provide a pricing reduction if sustainability criteria are met, and apply an increase where performance declines [54]. Case studies from the insurance sector include ecolabelled motor insurance policies and claims management that incorporates circular economy principles (repair rather than replace) [55]. Technology enabled platforms can provide better access for consumers to sustainable investments along with pensions that have a strong commitment to sustainable investing in their default fund [9].

### 5.1.3 Principle 3: Impact management of sustainability issues

#### 5.1.3.1 General

An organization should assess its activities (including portfolios and services) to manage sustainability impacts, dependencies, risks and opportunities across the business lifecycle, from dealings with suppliers and advisers through its own operations to the actions of its clients. This approach informs organizational choices at each stage of the lifecycle to achieve positive benefits for the economy, environment, and society.

An organization's actions against its identified and prioritized list of impacts and risks can be broken into two main categories:

- 1) those associated with financial product and service offerings, reflecting both their importance and unique characteristics (see 5.1.3.4); and
- 2) all other lifecycle impacts.

Many of the issues associated with lifecycle impacts (including operational/building-related impacts and supply chain management) are similar to those associated with broader service sector organizations' activity.

A number of existing tools can be used in the effective management of sustainability risk, typically starting by identifying the sustainability factors that pose potential risks to financial assets and liabilities and the translation of these factors into quantitative measures of financial risk. Priority areas for these approaches have been identified as including [56]:

- integration into core risk processes including an organization's risk appetite framework;
- broadening risk scope beyond environmental risk factors to include, for example, social issues;
- linking assessment across scales, from project/individual asset level through to sectors and system levels;

- promoting coherence in scenario analysis, balancing the use of publicly available reference scenarios and those based on organizational factors/assumptions; and
- translating risk information into more useful forms relevant to financial services organizations.

BS EN ISO 14001 and BS ISO 26000 both describe lifecycle based approaches that are intended to be applicable to all organizations and provide useful reference points for impact identification and management. Nonetheless, the impacts associated with clients/products are particularly important for financial services and are addressed in 5.1.3.4.

BS EN ISO 14001 describes an approach to manage environmental issues in an iterative process that supports a cycle of continual performance improvement. It involves setting improvement objectives and targets against prioritized environmental issues which are then monitored, checked and updated periodically to ensure continuing relevance. It indicates that the types of impact to be considered include:

- emissions to air;
- releases to water;
- releases to land;
- use of raw materials and natural resources;
- use of energy;
- energy emitted [e.g. heat, radiation, vibration (noise), light];
- generation of waste and/or by-products; and
- use of space.

BS ISO 26000 provides guidance on relevant social issues that might be considered in a sustainable finance framework, providing both background information on each of the subject areas and how this translates to action within organizations. It identifies the following seven core subject areas:

- organizational governance;
- human rights;
- labour practices;
- environment;
- fair operating practice;
- consumer issues; and
- community involvement and development.

It also notes that economic aspects, as well as those relating to health and safety and the value chain, are considered throughout the seven core subject areas, as there are different ways in which people can be affected by each area.

**NOTE** *The lifecycle approach (also called value chain) is well established in the measurement, management and reporting of GHG impacts at organizational level [see BS EN ISO 14064 (all parts) and the complementary and compatible GHG Protocol Corporate Accounting and Reporting Standard [56] for further information]. A detailed lifecycle assessment can require significant resources and might not be necessary where the principal objective is to identify major impact areas associated with the lifecycle stages.*

Sustainability risks should be considered within existing risk management frameworks that underpin financial services, including decisions on capital allocation. There are, however, a number of challenges associated with assessing the consequences of sustainability risks, not least the large scale and longer-term nature of risks such as climate change (as well as issues such as technology developments, government policy and consumer preferences).

TCFD has advocated the use of scenario analysis as a tool to support the risk assessment process. It involves developing a better understanding on how an organization might perform under different future states (i.e. its resiliency/robustness). In the case of climate change, climate-related scenarios allow an understanding of how the physical and transition risks and opportunities of climate change might plausibly impact the business over time [57]. Concerns over uncertainty (including the levels of emissions and the climate response to emissions), as well as the longer-term nature of some potential impacts, have been a major factor in considering scenario analysis as a key tool for identifying, and managing climate-related risks (including impacts on the environment and financial impacts on the business).

The use of multiple future scenarios (based on different global warming impacts and policy actions) is important as some organizations (e.g. energy intensive industries) are likely to be more affected by transition risk than others (e.g. agriculture) where physical risks could predominate.

Organizations may choose to start with qualitative scenario narratives or storylines to help management explore the potential range of climate-related risks and opportunities they might face. CDP's guide to scenario analysis [58] advocates the use of a simple scenario approach with two business-critical uncertainties. The scenario matrix then provides four distinct worlds to explore. Involvement of sustainability and finance professionals is likely to prove highly beneficial in such narrative based exercises. TCFD guidance further suggests, "As an organization gains experience with qualitative scenario analysis, the scenarios and associated analysis of development paths can use quantitative information to illustrate potential pathways... Organizations that are likely to be significantly impacted by climate-related transition and/or physical risks should consider some level of quantitative scenario analysis [57]."

Scenario analysis, extended beyond climate change to look at other sustainability risks, could be considered as a means to identify and understand potential future impacts and mitigate risks associated with an organization's sustainability considerations.

A number of approaches have been developed to provide the sustainability community with a supportive lens through which to assess an organization's overall sustainability impacts and dependencies, including natural capital, stranded assets, circular thinking and planetary boundaries.

- a) **Capitals** – represent stores of value that are used by an organization to create value over time. The capitals identified in the integrated reporting framework are: financial, manufactured, intellectual, human, social and relationship, and natural [59]. Forum for the future state that, "We are facing a sustainability crisis because we're consuming our stocks of natural, human and social capital faster than they are being produced. Unless we control the rate of this consumption, we can't sustain these vital stocks in the long-term" [60]. Natural capital links to an organizations' risks and opportunities can be assessed by considering the nature of indirect impacts and dependencies on ecosystem services within their value chain [61,62]. A natural capital risk assessment would explore how client organizations might depend on natural capital (such as pollination) to operate and relate this to credit, investment or insurance risk [63].



- b) **Stranded assets** – poorly understood or mispriced environment-related risks might lead to subsequent devaluations of assets or their conversion to liabilities. Originally considering the possibility that valuations of fossil fuel reserves are inconsistent with required GHG reductions, stranded assets now cover a range of risk factors (including regulation and social norms) that can alter asset values. A related approach is that of unburnable carbon [64] referring to fossil fuel sources that cannot be burnt if carbon budgets are to be achieved.
- c) **Circular economy** – aims to decouple economic growth from consumption of finite raw materials. This can be achieved by designing out waste, providing products and services that maximize resource efficiency (including energy) and at end of life are capable of reuse, thereby keeping materials at their highest utility and value at all times. This approach might be applied internally within organizations or considered when making investment, lending or underwriting decisions [65].
- NOTE Circular economy is defined in 2.2.*
- d) **Planetary boundaries** – identifies a safe operating space for humanity [66,67] based on quantitative planetary boundaries within which humanity can continue to develop and thrive. Crossing these boundaries increases the risk of generating large-scale abrupt or irreversible environmental changes.
- e) **Shared value** – a management strategy whereby companies maximize the competitive value of solving social problems. It includes meeting societal needs through products and addressing unserved or underserved customers, changing value chain practices to drive productivity through better utilizing resources, employees and business partners, and improving the available skills, supplier base, and supporting institutions in the communities where an organization operates [68].
- f) **Just transition** – a framework designed to ensure a well-managed transition to an environmentally sustainable economy, contributing to the goals of decent work for all, social inclusion and the eradication of poverty. The four pillars of the Decent Work Agenda – social dialogue, social protection, rights at work and employment – are regarded as indispensable building blocks of sustainable development [69].

### 5.1.3.2 Prioritization and performance indicators

An inventory of the positive and negative sustainability impacts associated with the organization is likely to be lengthy and needs to be prioritized. Performance indicators should reflect these priority impacts. The prioritization process should include the assessment of both positive and negative environmental, social and economic impacts as they relate to sustainability considerations, or the objectives of the SDGs and other relevant frameworks, such as the Paris Agreement [10], sectoral initiatives or the approaches outlined in 5.1.3.1. It should also include stakeholder input to inform expectations of action based on that received from customers, regulators and wider civil society. The prioritization process includes judgements based on the scale of current and potential future negative impacts (including their importance to stakeholders) [47]. Opportunities for current or future positive impacts enabling the organization to grow should also be recorded.

The overall magnitude of an impact is an important factor in assessing its significance and the level of an organization's control or influence over the impact/risk should also be considered, e.g. those subject to direct control, such as the use of gas and electricity in their own premises, compared to the actions of business partners where influence becomes a more important consideration. Where it is not possible to apply the principles to business operations (e.g. when operating with joint venture partners) the relevant area/activity should be stated publicly.

KPIs should be chosen to reflect the priority list of impacts. These should be absolute in nature (e.g. reducing emissions by 20% by 2020 from 2018) or relative, which relate the indicator to a unit of output (e.g. emissions per unit of revenue). Both types of indicators are important in providing a full picture of progress, with absolute indicators providing an overall measure of impact, whereas relative indicators highlight the efficiency of the organization. In addition to absolute and relative measures, targets should be set (see 5.1.3.3). These should be specific, measurable and time-bound and, where possible, science based (e.g. linked to planetary boundaries). Currently, approaches exist to set science-based targets and measure alignment for climate change, and work is under way to define these for other environmental indicators. Given the importance of client/investee related impacts for financial services, KPIs should be expected for the organization's own operations and also for client/investee activities.

*NOTE The SDG Compass maintains an inventory of business indicators against the SDGs [70].*

The sustainability impacts identified as a priority should be managed within existing organization structures as far as is practicable, linking to the relevant stage of the business lifecycle. The sustainability impacts associated with suppliers might be significant and addressed through supplier selection (e.g. adherence to sustainability practices), onboarding and ongoing performance management. Different expectations might be anticipated in different supplier categories, for example diversity could feature strongly in recruitment services and carbon reduction for construction contractors.

The management of an organization's owned operations affords an opportunity to engage employees in action to realize overall sustainability objectives. Sustainability champions can support aims related to impacts such as energy use and waste management, often working with facilities functions.

#### 5.1.3.3 Setting improvement targets

Improvement targets need to be set against the identified priority issues (see 5.1.3.2) to move towards alignment with sustainability considerations and be reviewed regularly, for example annually. This process should be integrated into existing business planning protocols, recognizing that there are challenges in aligning typical business timescales with the longer-term perspective required by sustainability. Targets can relate to both reduction of negative risks/impacts and increasing positive outcomes.

The nature of targets is also likely to vary at different stages of the business lifecycle and where an organization is on its journey of sustainable finance. For example, influencing social improvements might be important in supplier activities. Carbon, water and waste reduction, and efficient consumption of natural resources targets could be expected in relation to owned operational activities and investee engagement activities linked to improved client disclosure could be most relevant.

A number of financial institutions have publicly committed to set emissions reduction targets through the Science Based Targets initiative (SBTi) [71] alongside a project to help financial institutions align their lending and investment portfolios with the prevailing scientific consensus on climate change impacts [72].

#### 5.1.3.4 Integrating sustainability into product and service offerings

While acknowledging that sustainability issues are associated with operational aspects of financial services organizations (likely similar to other service sector

businesses), the importance of investee/borrower/insured activities is fundamental to sustainable finance. Client and investee related activities are core to both reducing the risks faced by the organization and also realizing the business opportunity associated with mobilizing finance to support the transition to sustainability.

Several approaches to incorporating sustainability within client portfolios exist with varying motivations. Actions might extend beyond encouragement of client action to avoidance/divestment of business interests in areas of concern (e.g. when a company or sector's growth plans are inconsistent with GHG reduction required for transition to sustainability). Such actions also tend to reduce an organization's exposure to risk (e.g. manifesting as credit and/or market risk). Client engagement (e.g. including exercising rights as shareholders) to influence corporate behaviour has regularly been applied within the responsible investment community and could inform approaches that might be adopted in other areas such as insurance and banking.

Management of sustainability impacts within product portfolios (particularly within the investment community) has seen the development of several approaches, often based on classification of activities according to their associated environmental and social impacts.

Utilization of robust, consistent taxonomies in deciding what constitutes sustainable should support transparency and avoid greenwashing. Taxonomies (classifications) of activities that promote sustainability are also useful in identifying priority areas for action [17]. Categorization of risks has also been applied in project finance [44] to determine the level of due diligence and banks have published lists of activities they do not finance [14].

*NOTE 1 A European Commission study [73] has focused on methods for identifying green sectors, technologies and activities and the UNEP Inquiry [74] considered taxonomies within the wider question of definitions used in sustainable finance.*

The PRI has identified three ways in which ESG criteria might be included in the investment portfolio decision-making process [25]:

- 1) **Integration of ESG criteria** – inclusion of ESG criteria to enhance the investment appraisal decision making process. For example, forecast financials (such as revenues, operating costs and capex) may be adjusted for the anticipated effect of future sustainability risks;

- 2) **Sustainability themed investment** – supporting themes/assets specifically related to sustainability (e.g. renewable energy or green technology); and
- 3) **Screening** – portfolio avoidance/exclusion of specific sectors, projects or companies considered to be incompatible with sustainability expectations. This approach echoes longstanding ethical investment approaches.

Active ownership (also stewardship), engaging investee companies on sustainability issues including resolutions and voting in annual general meetings (AGMs), is also an important strategy and can be combined with the approaches described in 5.1.3.3.

Efforts to incorporate ESG criteria in investments are supported by research indicating that enhanced data allows the creation of sustainable portfolios without compromising returns, not least suggesting that sustainability can be viewed alongside traditional quality measures (such as a strong balance sheet) [75].

UNEP FI has been working on a series of pilots with groups of institutional investors, banks and insurers to produce reports giving comprehensive guidance on implementing TCFD within financial services which includes methodologies for identifying climate-related risks in portfolios [76].

As with all environmental and social actions aiming to support the achievement of sustainable finance, portfolio related actions need to be aligned to sustainability considerations with targets that are ideally science-based. For example negative screening might work to align with customer preferences but in itself does not necessarily address the impact of the remaining portfolio. Positive screening approaches might result in representation from sectors whose activity is incompatible with sustainability.

**NOTE 2** *Impact investment involves explicit objectives to generate positive and measurable social and/or environmental impact alongside traditional financial return [77].*

**NOTE 3** *Fixed income instruments classified as sustainable, environmental or social bonds might be used to identify investment opportunities with transparent sustainability credentials [26].*

**NOTE 4** *Developments in satellite imagery and remote sensing, are enabling assessment of asset level data directly, rather than information disclosed by the company. Blockchain, big data and artificial intelligence have been identified as potentially improving the availability and use of data, thereby better enabling integrating sustainability factors into decision making [78].*

#### 5.1.4 Principle 4: Stakeholder engagement and collaborative solutions

A programme of stakeholder engagement should be developed with the objective of understanding sustainable finance expectations held by interested parties. The programme should contribute to effective internal decision making and avoidance of misunderstanding, as well as, helping to build trust and credibility and shape market practice. It can act as a source of external expert information, for example highlighting the importance of emerging issues, as well as creating an atmosphere conducive to collaboration.

Relevant internal and external stakeholders could include employees, customers, business partners, regulators, investors, academia, NGOs and other civil society organizations. Clients and regulators are key stakeholder groups, and it is important to ensure that transparent and fair processes are the basis of interaction with clients and that engagement with public policy and regulators aligns with the sustainable objectives of the organization, acting as advocates for sustainable finance.

**NOTE 1** *Regulation and established good practice related to consumer protection could be applied to ensuring individuals' sustainability aims and preferences are being met, along with providing an adequate understanding of the financial products/services being offered.*

**NOTE 2** *Customer commitments, such as the payday and short-term loan charter (produced by Government, regulator and trade associations) [80], can support responsible customer engagement.*

**NOTE 3** *The UK Government Green Finance Strategy has public-private sector collaboration as a key theme, helping to develop innovative and shared approaches to address finance challenges in key sectors [16].*

A list of stakeholders should be established, prioritized and reviewed based on factors such as expertise, capacity for collaboration, contractual relationship and whether they are affected by the organization's activities directly or indirectly. The stakeholder engagement process is ongoing and should provide clarity in how groups are to be engaged and at what frequency. There should also be wider opportunity for providing input, not necessarily solely focused on grievances, such that employees, suppliers and the wider community can raise issues safe in the knowledge that they are treated fairly. Stakeholder engagement should seek to leverage existing relationships such as those within risk management, sales and marketing, communications and public affairs teams, as well as customer and supplier connections. It is important to ensure critical and opposing views are heard in the stakeholder process.

**NOTE 4** *BS ISO 26000 identifies some of the many forms that stakeholder engagement can take. These include either informal or formal meetings in a wide variety of formats such as individual meetings, conferences, workshops, public hearings, round-table discussions, advisory committees, regular and structured information and consultation procedures, collective bargaining and web-based forums.*

The organization should also work across the financial sector, for example with trade bodies, to help build momentum and spread good practice and ensure access to enhanced capabilities in specific disciplines [20]. This might include re/insurance knowledge on climate risk and resilience, banking experience with assessment of project related impacts or investment expertise in engaging clients on governance practices.

Stakeholder engagement should be conducted transparently and recorded, ensuring that outcomes are shared with/accessible to the appropriate stakeholders (which could include public reporting).

The scale and nature of stakeholder engagement should be informed by the size and complexity of the financial services organization. BS 8900 indicates that all organizations should “undertake some form of stakeholder engagement, even if at a basic level, e.g. member, customer and employee dialogue, in order to improve effectiveness, manage risk, identify and realize new opportunities.”

### 5.1.5 Principle 5: Transparency

#### 5.1.5.1 General

Improving publicly available information on corporate sustainability not only enables efficient allocation of capital, but also helps in building and maintaining trust in the reporting organization. Adopting a forward-looking approach also signals the value of effective disclosure to the wider business community including clients and regulators.

BS ISO 26000:2010 recommends that when communicating with consumers, an organization provides complete, accurate and understandable information covering all important aspects of products and services, ideally taking into account the full lifecycle. The ability to access the information easily is also important.

While it is important to participate in sustainability focused reporting initiatives, the starting point for disclosure should be the established corporate reporting framework. Environmental Reporting Guidelines [79] have been produced to support legal obligations that came into force in April 2019 under the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013 [80] and the Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 [81]. The Global Reporting Initiative (GRI) and the UN Global Compact have published a guide to reporting [82] outlining a three-step process to embed SDGs in existing reporting processes. It starts with a process to identify priority SDG targets, followed by setting business objectives and analysing performance. It also offers tips and guidance on reporting and improving SDG performance.

**NOTE 1** *The Environmental Reporting Guidelines [79] also provide guidance on voluntary disclosure covering a range of environmental matters including GHG emissions, water, waste, emissions to air, resource efficiency, biodiversity and ecosystem services. They are likely to be particularly useful to first-time reporters.*

There are already indications that climate change related issues are/or could be material to many organizations [19]; hence progress towards sustainable finance should help in meeting existing reporting obligations, including routine financial filings. Disclosure of green revenues, consistent with developing taxonomies (which could also include characteristics of the circular economy) should also support increasing allocation of capital towards sustainable activities and assets [17]. The PRA has also indicated [83] that material exposures relating to the financial risks from climate change should be part of banks’ and insurers’ Internal Capital Adequacy Assessment Process (ICAAP) [84] or Own Risk and Solvency Assessment (ORSA) reports [85].

**NOTE 2** *In relation to expectations around communicating aspects of green financial products and services the FCA has indicated that it plans to challenge firms where it identifies potential greenwashing and take appropriate action (e.g. producing guidance) to address concerns [86].*

The TCFD recommends [19] an approach to disclosure on climate change risk covering four major themes, representative of how organizations operate:

- governance;
- strategy;
- risk management; and
- metrics and targets.

The TCFD also identify challenges that should be considered relevant to the evolving nature of an organization's sustainability reporting, including:

- uncertainty in timing of future impacts;
- both physical impacts and those related to the transition process (such as policy changes);
- missing and poor data; and
- interdependencies across risk types.

A TCFD-like forward-looking approach might be applied more widely to the full range of environmental and social issues to provide a framework for sustainability risk reporting.

### 5.1.6 Examples of reporting on sustainability information

Industry standards covering many sectors have been developed to assist in communicating financially material sustainability information. The Sustainability Accounting Standards Board (SASB) suite [87] (covering 77 sectors and including financial services) is designed to identify the minimum set of sustainability issues most likely to impact the operating performance or financial condition of a business.

Reporting needs to consider factors that can influence future value creation by the organization. It should therefore facilitate scrutiny of current risks and impacts (including sustainability risks) that might impact future value. It should also ensure that the information on the organization's strategy adequately considers its approach to sustainability and discloses any compromises that have been made regarding sustainability and short-term financial issues (e.g. arising out of challenges such as time horizons, uncertain and inadequate data). The opportunities afforded to the organization by the transition to a sustainable economy should also be considered, including access to markets, increased resilience and alignment to evolving customer expectations.

Reporting approaches that aim to support disclosure of the organization's sustainability impacts, both positive and negative (which might or might not be financially material), include:

- The Action Reporting Platform – a joint initiative from the United Nations Global Compact and Global Reporting Initiative (GRI) [88];
- The Cambridge Impact Framework – aims to identify a small set of reporting measures that are simple to understand and allow assessment of whether a fund or an organization is aligned with the SDGs [89];

- The International Integrated Reporting Framework – focuses on impacts and uses of capital (including natural capital) in an approach that is consistent with sustainable finance. It also provides for insight into the nature and quality of relationships with the organization's key stakeholders [90];
- The ICMA Handbook – describes a sector-based framework for impact reporting on green bond proceeds including metrics [91]; and
- The Natural Capital Committee – a balance sheet-based structure that enables the organization to gather and report natural capital information in a comparable format [92]. Specific guidance that allows assessment of natural capital risks in portfolios is also available for banks [93].

Sustainability reporting initiatives refer to impacts and risks across the whole business lifecycle, including direct emissions from sources that are owned or controlled by the reporting organization and indirect emissions (emissions that are a consequence of its activities but occur at sources owned or controlled by another organization). Given the importance in financial services of indirect, downstream impacts associated with clients/services it is important that they are given adequate consideration in reporting. The GHG Protocol Corporate Value Chain (Scope 3) Standard [94] represents an established and accepted method for organizations to account for these types of GHG emissions. It includes information on data collection and setting boundaries for investments (category 15) that considers debt and managed investments along with an "other" category which includes insurance.

Dutch financial institutions working as the Platform Carbon Accounting Financials (PCAF) initiative have produced guidance [95] for the sector intended to provide a harmonized approach to carbon accounting. Its reporting covers a range of asset classes and focuses on the impact of the actions of financial institutions on the climate (as compared to the TCFD approach which is more concerned with the financial impact of climate change on financial institutions). It suggests reporting metrics for different classes and their limitations.

***NOTE** Technical developments [78] such as distributed databases and blockchain technology might be monitored for the potential to improve availability of data, database management and information sharing.*

## 6 Applying sustainable finance principles across organizational functions

### 6.1 General

Effective sustainability initiatives require visible senior level engagement along with dedicated support from roles that can act as an overall focal point for the organization's sustainable finance programme. The roles should have responsibility for the overall management of the sustainability strategy and act as sources of expert knowledge. These roles may already exist within a dedicated sustainability/environmental/corporate responsibility function. Local/functional involvement can be coordinated through sustainability champions and teams in programmes that support employee engagement on achieving sustainability targets [96].

There is a critical role across the organization's functions acting in support of sustainable finance within its sphere of responsibility. This ensures that sustainability is integrated into the business, particularly as it relates to its products and services. The level of awareness required from different functions and employees, from underwriters to fund managers and loan officers, varies according to their role but as a minimum includes an:

- a) appreciation of how sustainability relates to the organizational values and strategy; and
- b) understanding of how social and environmental issues relate to their own function.

Core competencies for employees assigned to key roles in the implementation of sustainable finance include technical, people and leadership skills.

- a) **Technical** – understanding internal business processes (including accounting and actuarial aspects) alongside knowledge of environmental and social issues and their relation to financial services.
- b) **People** – understanding the interests of other stakeholders, influencing actions and behaviours supporting sustainability.
- c) **Leadership** – motivating people at all levels within the organization to support the transition to sustainable finance, including acting as role models on desirable attitudes and behaviour.

### 6.2 Product development/innovation

The transition to sustainability presents major opportunities, as well as threats to financial services organizations. Product development and innovation functions should accordingly ensure potential markets for new products and services are investigated. The principle of stakeholder engagement (see 4.4) should support these actions, through insight from customers and other stakeholders.

The UN Global Compact Action Platform Financial Innovation explores opportunities around the SDGs including new business and finance models, reducing risk, providing investment scale and matching risk return profiles for investors [97].

### 6.3 Client management, sales and marketing

Client-related activities are core to both reducing the risks faced by the organization and also realizing the business opportunity associated with mobilizing finance to support the transition to sustainability. Sustainability information should be visible and understandable in client facing material, including reports to clients and marketing materials. Given different levels of understanding (e.g. around the meaning of fiduciary responsibility for ESG integration) client managers and sales and marketing staff should be educated on sustainability issues relevant to products and services to ensure product coverage along with their benefits and costs are explained and understood [24]. Opportunities might also be identified for improved customer experience and investee engagement (e.g. linking with planning budgeting and lifestyle choices) [14] alongside efforts to improve client understanding of sustainability management and the role of financial services.

### 6.4 Risk, compliance and internal audit

In their role evaluating governance and control processes, as well as ensuring compliance with accounting and reporting requirements, internal audit functions have an important position in sustainable finance activity. Risk functions can apply expertise in risk identification, assessment and prioritization and in implementing responses and tracking effectiveness to support the integration of sustainability into financial services [48].

The widely adopted “Three Lines of Defence” risk model [98] shows how responsibility for risks (including sustainability risks) is commonly shared across an organization, with the three lines defined as:

- 1) **First line** – handled by front-line managers who have day-to-day ownership and management of relevant risks and their controls;
- 2) **Second line** – typically the risk function that has oversight and control of the risk processes; and
- 3) **Third line** – an independent function that ensures that the first two lines are working as intended.

Ensuring appropriate structures are in place to achieve effective risk management typically falls within the remit of internal audit and, as such, it can act as a third line of defence to challenge internal processes on sustainability. This function might also be involved in deep dive activities on issues of particular concern.

Audit and risk committees should, within their scope of responsibility, subject sustainability-related information to the same level of scrutiny applied to financial information [99].

## 6.5 Human resources (HR)

Incentives and performance packages aligned to sustainability targets are a key component of sustainable finance programmes that relate to HR activity. This includes ensuring that there are no perverse incentives for unsustainable behaviour, for example encouragement for short-term business at the expense of longer-term sustainability aims.

The HR function should ensure that there are relevant sustainability skills across the organization. This involves identifying specific competencies for key roles and more general training and development opportunities to support employees in achieving targets. Relevant training resources currently available, or in development, include; online short courses [100], residential programmes [101], workshops [102,103] and certificates [104].

An organization’s sustainability ambitions should feature in its recruitment efforts and employee onboarding/induction programmes, as well as ongoing talent management [46].

Developing and running employee engagement surveys and programmes that include sustainability elements, articulate organizational objectives and allow for individual employee involvement can support the sustainable finance programme.

## 6.6 Finance

Organization disclosure processes are an important communication channel for sustainability including identification, assessment and monitoring of sustainability data (see 5.1.5). Translating relevant sustainability impacts and risks into financial consequences for the organization is a key step in integrating sustainability within business processes. Disclosure is also likely to involve acknowledging sustainability related expenditure (and income) within strategic budgeting.

## 6.7 IT

IT services, either in-house or outsourced (particularly energy use), might constitute significant direct sustainability impacts that should be prioritized and monitored. Looking forward, the importance of sustainability in respect to digital finance could also be a major focus of activity [78].

Organizations might make greater use of sustainability analytics in the future, including software-based advisory services, matchmaking platforms and investee engagement. Insurance might utilize real-time data to deliver integrated risk management and targeted services. Smart sensors, and blockchain could help organizations manage their Scope 3 impacts (see 5.1.3.4) by delivering insight into value chains [105].

## 6.8 Procurement

Significant sustainability impacts might reside in financial service organization supply chains. Procurement functions can support sustainability through actions described in BS ISO 20400 including use of sustainability criteria in supplier appointment and ongoing performance assessments. Given the opportunity to influence supplier behaviour, collaborative working to reduce impacts is likely to be beneficial in meeting Scope 3 targets as well as wider promotion to suppliers of the benefits of adopting sustainability practices.

### 6.9 Communications and public affairs

Ensuring alignment of public policy engagement by the organization with internal sustainability goals should fall within the remit of public affairs. This might involve engaging with wider efforts to align/reform regulatory regimes with sustainable finance objectives. Relevant initiatives might involve encouragement for incorporating sustainability into prudential regulation, setting lending quotas for specific sectors and supporting green assets as part of quantitative easing and enforcing or encouraging disclosure [106].

Communications, both internal and external, should explain the organization's sustainability programme and provide information on its progress, including achievement of targets. Reporting should be structured in a way that is not selective (i.e. only reporting improvements). Stakeholder engagement activities for sustainability should build on existing mechanisms and relationships outside the organization.

**NOTE** More detailed sustainability information might be needed to complement requirements within regular filing, often presented in the form of a dedicated, standalone sustainability report.

### 6.10 Facilities management

Facilities management, with overall responsibility for premises, have a significant role in supporting an organization's sustainability efforts. Premises are a source of direct impacts (e.g. energy, waste and water use) that should be monitored and reported against sustainability targets through data collection and analysis.

Facilities management may also manage supplier relationships and outsourced services, such as catering and construction that can support collaboration within the value chain and communicate the organization's sustainable objectives.





## Annex A (informative)

# United Nations Sustainable Development Goals (UN SDGs)

The 2030 Agenda for Sustainable Development [107], adopted by United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are 17 SDGs which are an urgent call for action by all countries, developed and developing, in a global partnership.<sup>2)</sup> They recognize that ending poverty and other deprivations go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth; all while tackling climate change and working to preserve our oceans and forests

The SDGs seek to build on experience gained with the Millennium Development Goals. They seek to realize the human rights of all and to achieve gender equality and the empowerment of all women and girls. They are integrated and indivisible and balance the three dimensions of sustainable development: economic, social and environmental.<sup>3)</sup>

The 17 SDGs (see Figure A.1) are underpinned by 169 SDG targets whose progress can be tracked by 232 unique indicators.<sup>4)</sup>

Figure A.1 – Sustainable development goals



<sup>2)</sup> Further information on the 17 SDGs is available at: <https://sustainabledevelopment.un.org/?menu=1300> [107]

<sup>3)</sup> Further information is available at: <https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf> [108]

<sup>4)</sup> Further information is available at: [https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%20refinement\\_Eng.pdf](https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%20refinement_Eng.pdf) [109]

## Annex B (informative)

### Financial services sustainability initiatives

*NOTE The list of initiatives in this annex is not meant to be exhaustive and represents a small subset of initiatives that are constantly evolving.*

#### B.1 Asset Owners Disclosure Project AODP

Rates and ranks the world's largest institutional investors and assesses their response to climate-related risks and opportunities. Their mission is to work with institutional investors to leverage the global financial system to fight climate change and to support the transition to a low-carbon economy.

<https://aodproject.net/about-us/>

#### B.2 Banking Environment Initiative

Created in 2010, its mission is to lead the banking industry in collectively directing capital towards environmentally and socially sustainable economic development.

[www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative](http://www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative)

#### B.3 British Private Equity & Venture Capital Association (BVCA)

The BVCA Responsible Investment Advisory Group provides practical advice to its members to help them incorporate responsible investment considerations into their business decisions. The Group comprises investors, intermediaries and sustainability/responsible investment practitioners recognized for their excellence, experience, insight and ability to provide strategic guidance to the BVCA.

[www.bvca.co.uk/About-Us/BVCA-Governance/Responsible-Investment-Advisory-Group](http://www.bvca.co.uk/About-Us/BVCA-Governance/Responsible-Investment-Advisory-Group)

#### B.4 CDP

CDP, formerly the Carbon Disclosure Project, runs the global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts. CDP Investor Initiatives allow investors to request and access environmental data and analytics, sector research, engagement support and webinars.

[www.cdp.net/en/investor](http://www.cdp.net/en/investor)

#### B.5 Climate Disclosure Standards Board (CDSB)

CDSB was founded in 2007 and is an international consortium of business and environmental NGOs committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. It offers companies a framework for reporting environmental and climate information with the same rigour as financial information.

[www.cdsb.net](http://www.cdsb.net)

#### B.6 ClimateWise

ClimateWise represents a global network of insurance industry organizations, helping to align its members' expertise to directly support society as it responds to the risks and opportunities of climate change. The ClimateWise Principles help members disclose their individual response to climate change.

[www.cisl.cam.ac.uk/business-action/sustainable-finance/climatewise](http://www.cisl.cam.ac.uk/business-action/sustainable-finance/climatewise)

#### B.7 Equator Principles (EP)

EP is a risk management framework dating to 2003, adopted by financial institutions for determining, assessing and managing environmental and social risks in project finance. It is primarily intended to provide a minimum standard for due diligence and monitoring.

<https://equator-principles.com>

## B.8 European Commission Sustainable Finance

The recommendations of a High-Level Expert Group on Sustainable Finance formed the basis of an action plan on sustainable finance adopted by the European Commission in March 2018. Key elements of the plan include establishing a detailed EU classification system (taxonomy) for sustainable activities, establishing EU labels for green financial products, introducing measures to clarify asset managers' and institutional investors' duties regarding sustainability, strengthening the transparency of companies on their ESG policies and introducing a "green supporting factor" in the EU prudential rules for banks and insurance companies.

In April 2019, the European Parliament endorsed legislation including the regulation on disclosures relating to sustainable investments and sustainability risks as proposed in the Action Plan.

[https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en)

## B.9 Green Finance Institute (GFI)

Established in 2019, the GFI is an independent, commercially-focused organization, supported by HM Treasury, the Department for Business, Energy and Industrial Strategy and the City of London Corporation. It is the UK's principal forum for public and private sector collaboration in green finance, and is uniquely placed to accelerate the domestic and global transition to a zero-carbon and climate-resilient economy through the mobilization of capital.

[www.greenfinanceinstitute.co.uk](http://www.greenfinanceinstitute.co.uk)

## B.10 Global Reporting Initiative (GRI)

GRI is an independent international organization that has pioneered sustainability reporting since 1997. It helps businesses and governments understand and communicate their impact on sustainability issues such as climate change, human rights, governance and social well-being. GRI's Sustainability Reporting Standards have been continuously developed over 20 years and represent global best practice for reporting on economic, environmental and social issues.

[www.globalreporting.org/Pages/default.aspx](http://www.globalreporting.org/Pages/default.aspx)

## B.11 Institutional Investors Group on Climate Change (IIGCC)

IIGCC is a European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. Its mission is to mobilize capital for the low carbon transition by working with business, policy makers and fellow investors.

[www.iigcc.org](http://www.iigcc.org)

## B.12 Investment Leaders Group (ILG)

ILG is a global network of pension funds, insurers and asset managers, committed to advancing the practice of responsible investment. Their vision is an investment chain in which economic, social and environmental sustainability are delivered as an outcome of the investment process as investors go about generating robust, long-term returns.

[www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group](http://www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group)

## B.13 Natural Capital Finance Alliance (NCFA)

NCFA enables banks, investors and insurers to make better decisions by assessing their impacts and dependencies on nature. The Alliance has helped to create a standardized set of guidance on how to incorporate environmental risks and opportunities into lending, investment and insurance decision-making.

<https://naturalcapital.finance>

## B.14 Network for Greening the Financial System (NGFS)

NGFS is a group of central banks and supervisors coming together to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy.

[www.banque-france.fr/sites/default/files/ngfs\\_charter\\_20180424\\_0.pdf](http://www.banque-france.fr/sites/default/files/ngfs_charter_20180424_0.pdf)

### B.15 Planetary Boundaries Research

The Stockholm Resilience Centre hosts a centre for planetary boundaries research, exploring concepts around nine planetary boundaries within which humanity can continue to develop and thrive for generations to come.

[www.stockholmresilience.org/research/planetary-boundaries.html](http://www.stockholmresilience.org/research/planetary-boundaries.html)

### B.16 Principles for Responsible Banking (PRB)

Leading banks came together to establish the Principles for Responsible Banking under UNEP FI. They aim to provide the banking industry with a single framework that embeds sustainability at the strategic, portfolio and transactional levels and across all business areas. The principles align banks with society's goals as expressed in the SDGs and the Paris Climate Agreement [10].

[www.unepfi.org/banking/bankingprinciples/](http://www.unepfi.org/banking/bankingprinciples/)

### B.17 Principles for Responsible Investment (PRI)

Since its launch in 2006, the PRI initiative has worked to understand the investment implications of ESG factors and to support its international network of signatories in incorporating these factors into their investment and ownership decisions. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

[www.unpri.org](http://www.unpri.org)

### B.18 Principles for Sustainable Insurance (PSI)

A global sustainability initiative of the United Nations Environment Programme Finance Initiative. Launched at the 2012 UN Conference on Sustainable Development, the principles serve as a global framework for the insurance industry to address ESG risks and opportunities. The vision of the PSI initiative is of a risk-aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society.

[www.unepfi.org/psi/](http://www.unepfi.org/psi/)

### B.19 Science Based Targets initiative (SBTi)

SBTi champions science-based target setting as a powerful way of boosting companies' competitive advantage in the transition to the low-carbon economy. It is a collaboration between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). It defines and promotes best practice in science-based target setting and independently assesses and approves companies' targets.

<https://sciencebasedtargets.org>

### B.20 Sustainability Accounting Standards Board (SASB)

SASB connects businesses and investors on the financial impacts of sustainability. It has developed a set of 77 industry standards which identify the minimal set of financially material sustainability topics and their associated metrics. It has produced finance standards covering capital markets, corporate and retail banking and insurance.

[www.sasb.org](http://www.sasb.org)

### B.21 Taskforce on Climate-related Financial Disclosure (TCFD)

TCFD has developed recommendations designed to solicit consistent, decision-useful, forward-looking information on the material financial impacts of climate-related risks and opportunities, including those related to the global transition to a lower-carbon economy. They are adoptable by all organizations with public debt or equity in G20 jurisdictions for use in mainstream financial filings.

[www.tcfhub.org/home/recommendations](http://www.tcfhub.org/home/recommendations)

### B.22 United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a partnership between UN Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 240 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today's ESG challenges, why they matter to finance, and how to actively participate in addressing them.

[www.unepfi.org](http://www.unepfi.org)

### **B.23 United Nations Environment Programme Inquiry: Design of a Sustainable Financial System**

The Inquiry is an international platform for advancing national and international efforts to deliver an inclusive, green economy through the transformation of the global financial system. Since launching in 2014, the inquiry has worked with more than twenty countries on national processes and serves as the Secretariat for the G20's Green Finance Study Group.

<https://unepinquiry.org/about-us/>

### **B.24 World Business Council for Sustainable Development (WBCSD)**

WBCSD is a global, CEO-led organization of businesses working together to accelerate the transition to a sustainable world. Their goal is to build a joint understanding and to stimulate the different types and sources of capital available for business initiatives that generate both business value and social impact in realizing the SDGs.

[www.wbcsd.org/Overview/About-us](http://www.wbcsd.org/Overview/About-us)

# Annex C (informative)

## Sustainable finance definitions and taxonomies

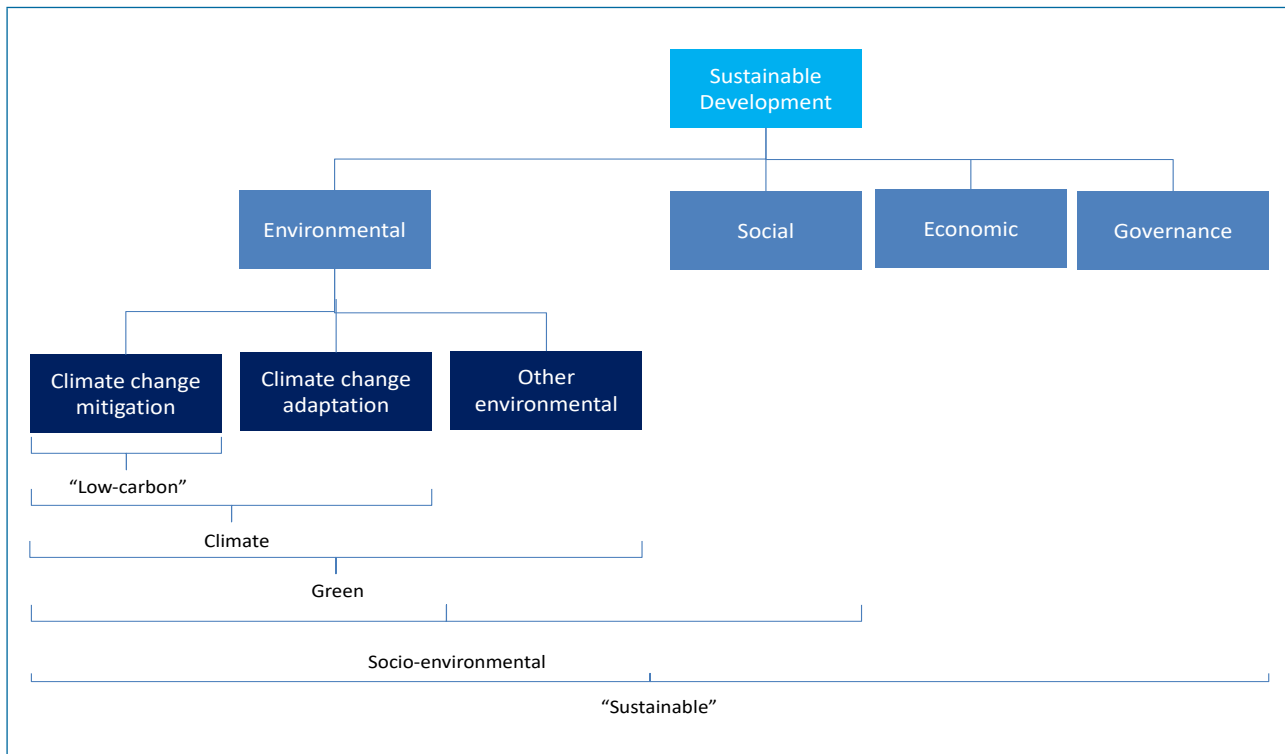
Realizing agreed terminology around sustainable finance has been a focus for several studies [25,74,75]. These reflect concerns that terms such as “green” and “sustainable” have been applied without consistency (and often interchangeably) to various approaches giving rise to confusion and even greenwashing. Harmonized approaches to definitions can support greater transparency and enable tracking of finance flows at sector, national and global levels.

The UNEP Inquiry Working Paper [78] found no universally agreed definition for green or sustainable finance but did note a broad agreement in the distinctions between green, climate and sustainable finance indicating that:

- sustainable finance is the most inclusive, including social, environmental and economic aspects;
- climate finance was said to include a subset of environmental aspects; and
- green finance included climate finance but excluded social and economic aspects.

*NOTE These relationships are summarized in Figure C.1.*

**Figure C.1** – A simplified schema for understanding broad terms



The paper concluded that a general distinction can be drawn between approaches that take a broad environmental, social, economic and governance approach (i.e. related to sustainable finance) and those adopting a narrower green finance approach concerned only with environmental issues. Within the overall green finance grouping a subset was identified targeting climate change mitigation and/or adaptation to climate change related impacts. Green finance was accordingly determined to be broader than climate finance, addressing other environmental objectives and risks.

The European Commission study [73] focused on identifying green sectors, technologies and activities, equated green finance with the provision of targeted/ themed capital for development and implementation of green technologies/activities/projects (citing examples such as solar photovoltaics and companies whose revenues derive from green technologies activities). Alongside this was broader "untargeted" green finance activity for companies that successfully manage environmental risks and are thus perceived as more environmentally friendly than others.

The UNEP Inquiry description of ESG issues are summarized as:

- **Environmental issues** – relate to the quality and functioning of the natural environment including (but not limited to) biodiversity loss, GHG emissions, energy efficiency, natural resource depletion or pollution and waste management;
- **Social issues** – relate to rights, wellbeing and interests of people and communities including (but not limited to) human rights, labour standards, health and safety, community relations and consumer protection; and
- **Governance issues** – relate to the management practices of investees including, but not limited, board structure, business ethics, executive pay, internal controls and risk management.

This PAS has adopted a definition of sustainable finance (2.26) that paraphrases the overview to the European Commission programme of work on sustainable finance [37] which includes commitments to develop a unified classification system for sustainable economic activities and metrics for climate-related disclosure.

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