

PAS 7340:2020

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



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Foreword

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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

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
1. Governance and culture	Embed sustainability across the organization, including governance and culture (see 4.1).
2. Strategy alignment	Align the business strategy with overall sustainability objectives, including risk management and products (see 4.2).
3. Impact management	Identify and manage business lifecycle sustainability impacts, dependencies, risks and opportunities (see 4.3).
4. Stakeholder engagement	Work with stakeholders to deliver collaborative solutions and financial system architecture that supports sustainability objectives (see 4.4).
5. Transparency	Operate in a transparent and accountable manner, including public reporting (see 4.5).
NOTE 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].



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:

- a) contributes to sustainability, including health and welfare of society;
- b) takes into account the expectations of stakeholders;
- c) is in compliance with applicable law and consistent with international norms of behaviour; and
- d) 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