

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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The PAS process enables a guide to be rapidly developed in order to fulfil an immediate need in industry. A PAS can be considered for further development as a British Standard, or constitute part of the UK input into the development of a European or International Standard.

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.

