



White Paper

SUSTAINABLE FINANCE

**Establishing a principles-based framework
for the measurement and reporting of
multi-year commitments**

November 2020



UK Finance

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. We work for and on behalf of our members to promote a safe, transparent and innovative banking and finance industry. We offer research, policy expertise, thought leadership and advocacy in support of our work. We provide a single voice for a diverse and competitive industry. Our operational activity enhances members' own services in situations where collective industry action adds value.

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FOREWORD

Building on earlier interventions in support of sustainability, green finance and climate action, UK Finance this year formed a senior Sustainability Committee representative of the breadth of our membership, from large, UK and overseas headquartered banks through to smaller, domestic institutions including specialist finance providers.

We put together a work programme combining thought leadership, support for initiatives being led by others and measures bringing greater emphasis to environmental and social factors, including in support of COP 26 and the attainment of net-zero goals.

Over the course of the year we have provided assistance to the Coalition of Energy Efficient Buildings formed by the Green Finance Institute (GFI), engaged with the financial regulatory authorities and have supported the Climate Financial Risk Forum (CFRF). Internationally we have participated in a European Banking Federation/UNEP FI initiative on the practical application of the EU taxonomy.

In July, we were pleased to support the Grantham Research Institute in the launch of its report 'Financing climate action with a positive social impact: How banking can support a just transition in the UK'. The report was the result of an 18-month project in which UK Finance joined Grantham and Leeds University in a dialogue with multiple stakeholders across the UK.

This white paper sets out a principles-based framework for the measurement and reporting of multi-year commitments to sustainable finance. It recognises that legislators, regulators and business leaders have signalled their intention that greater definition be given to environmental, social and governance (ESG) reporting.

In September the International Business Council (IBC) of the World Economic Forum (WEF) published a report on global ESG standards¹ building upon a statement by five leading international sustainability standard setters on their intent to work towards a comprehensive corporate reporting system².

This is in addition to the European Commission revising its Non-Financial Reporting Directive (NFRD), the International Organization of Securities Commissions (IOSCO) committing to accelerate the harmonisation of sustainability standards, the US Securities and Exchange Commission (SEC) amending its rules to advance human capital disclosures and the International Financial Reporting Standards (IFRS) Foundation agreeing to consult on broadening its mandate to include sustainability issues. These are important steps towards embedding sustainability into mainstream corporate reporting.

We see each of these developments as highly significant and welcome the announcements on the part of the UK government during the 9-11 November Green Horizon Summit that it intends to make TCFD-aligned disclosures mandatory, implement a green taxonomy based upon the scientific metrics of the EU taxonomy and work in support of the global framework that we can reasonably expect to be put in place in the near term.

This paper focuses specifically on the way in which credit institutions measure and report multi-year commitments to sustainable finance. We undertook limited stakeholder consultation over the summer and in light of support received we are publishing these high level principles as market guidance. We view these principles as a small, but meaningful contributory step towards the global standardisation of ESG reporting. We also see the Principles as timely and relevant to more ambitious commitments to sustainable finance that can be expected to be made in conjunction with firms committing to net-zero.



Bob Wigley
Chair, UK Finance



1. WEF IBC **report** 'Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, 22 September 2020
2. **Statement** of Intent to Work Together Towards Comprehensive Corporate Reporting', CDP, DCSB, GRI, IIRC and SASB, September 2020.

INTRODUCTION

It is increasingly common for credit institutions to make multi-year commitments to sustainable finance. These early commitments have been made as part of an individual firm's strategic acknowledgement of the contribution they can make to environmental and social goals. But they are often made with little reference to what might commonly define 'sustainable finance'.

Some commitments focus solely on 'green' while others include a broader range of environmental activities, whether in terms of clean air, bio-diversity or nature-based solutions; some accommodate 'transition' towards a low carbon economy and others are defined by reference to more broadly defined environmental, social and governance (ESG) activity.

A desk-based survey of 30 firms by PwC in March 2020 demonstrated considerable differences in the way in which these multi-year commitments are being measured and reported. This may hinder the ability of the industry to demonstrate the collective progress and impact that sustainable financing is making in the delivery of action on climate change or on UN sustainable development goals (SDGs) and there is ample scope for industry double counting.

We look forward to enhanced interest in the part being played by banking and finance in supporting the transition to a net-zero carbon economy. A coherent framework for strategic commitments to sustainable finance can only contribute to this being demonstrable in a robust and reliable way. We can add to this a growing demand, including on the part of UK Finance, that Covid-19 economic responses align to net-zero pathways and the building of a more resilient, 'better' economy. Firms will therefore wish to place their climate action into a broader ESG context, including any commitment made to a just transition.

This paper is aimed at credit institutions that have made – or are planning to make – multi-year commitments to provide a certain amount of 'sustainable finance' and are reporting on progress against this as part of their key performance indicators.

The challenge we set ourselves in spring this year was to agree on a principles-based framework for multi-year commitments to sustainable finance capable of use within and across credit institutions. Based upon industry discussion and some exposure to advisers and other key stakeholders, the framework offers a step towards clarity, consistency and comparability within strategic reporting.

A UK Finance working group (Appendix A) was formed to discuss and find agreement on core questions relating to how sustainable finance is defined (Appendix B). The PwC desk research referred to above provided a starting point for discussion (Appendix C). Firms represented on the working group then contributed to a mapping exercise in which they were asked to identify the various sources drawn upon in

classifying products and services as 'sustainable finance'. This was not intended to be a comprehensive exercise and instead aimed to identify whether there were areas where guidance had emerged as a de facto standard within the marketplace or, vice versa, firms were drawing upon a multitude of sources. The findings are enclosed as Appendix D.

UK Finance is fully aware that standard setters, intergovernmental bodies, regulatory authorities, and others within the marketplace have signalled their intent to cooperate more fully on what should constitute sustainable finance and the discipline that should be wrapped around this. Our intention in publishing this principles-based framework is not to pre-empt or somehow constrain this consideration, but instead to make a specific contribution and in the process send a clear signal on behalf of banking and finance that we wish to be partners in change and that the journey towards placing sustainability at the core of our business models has already commenced.

The framework set out in this paper focuses specifically upon the measurement and reporting of multi-year commitments to sustainable finance. It provides an opportunity for pre-positioning in advance of the ESG framework being more clearly defined by standard setters and others.

“The absence of a generally accepted international framework for the reporting of material aspects of ESG and other relevant considerations for long-term value creation contrasts with the well-established standards that exist for reporting and verifying financial performance. The existence of multiple ESG measurement and reporting frameworks and lack of consistency and comparability of metrics were defined as pain points that hinder the ability of companies to meaningfully and credibly demonstrate the progress they are making on sustainability, including their contribution to the SDGs.”

WEF: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation

ROADMAP

UK Finance shared this white paper in draft with member firms, similar banking networks and a broad range of stakeholders within and beyond financial services, including governmental.

We invited these to provide observations on the Principles outlined in the draft paper, including areas specifically considered by the working group as reproduced in Appendix B.

These related to:

1. Vision and rationale
2. Green vs Sustainable
3. Flow of capital
4. Value of the contribution
5. Reporting and assurance
6. Other sustainable finance initiatives

We are grateful to the stakeholders and banking networks that provided comments or otherwise arranged for circulation of the draft and in some cases discussion; also to the members of the working group and their willingness to engage with us in such a way that has enabled this paper to be published in the same calendar year as our initial discussion.

UK Finance is not a standard setting body and so has no basis for obliging any credit institution to adopt this principles-based framework. We consider, however, that adoption of the Principles would represent a step towards enhancing the consistency and comparability of the measurement and reporting of multi-year commitments to sustainable finance. We therefore recommend that firms adhere to the Principles in measuring and reporting upon these strategic commitments and invite them to consider whether or not they wish to reference this in their ESG reporting.

EXECUTIVE SUMMARY

- This white paper sets out UK Finance’s recommendations on Principles that should underpin the measurement of multi-year commitments to sustainable finance.
- These Principles were developed through discussion with a panel of a dozen firms and approved by our senior Sustainability Committee.
- We recognise that standard setters, legislators, regulators and others are looking to improve the quality of ESG reporting.
- This paper relates specifically to multi-year commitments to sustainable finance made by credit institutions and is aimed at establishing some fundamental Principles that can be broadly applied.
- Our starting point was a desk-based review of 30 firms by PwC and a mapping of the standards and guidance followed.
- These Principles have been developed with the aim of improving transparency and reducing the incidence of double counting within and across institutions.

Principle 1 – Governance: firms making multi-year commitments to sustainable finance should build ESG considerations more comprehensively into their mainstream governance structure.

This should be seen as part and parcel of board responsibility for purpose, strategy and the design of the business model intended to achieve these.

Governance and controls should enable consistent categorisation of products, services and transactions when including them as qualifying towards a firm’s strategic commitments.

Principle 2 – Definitions: sustainable finance should not be limited to environmental or ‘green’, and can instead cover any relevant ESG area, including by reference to SDGs.

Defined products and services should align to publicly available standards where possible.

Within a UK and EU context, the EU taxonomy is likely to be of core relevance.

Sustainable finance includes facilities for a specific ‘use of proceeds’, financing for businesses and organisations principally engaged in green or social activities; also transition-related activities, though the latter is dependent upon the client being able to demonstrate their progress towards decarbonisation.

‘Key considerations’ in respect of facilitation, advisory, financing and investment are given, including on what counts as contributing to sustainable finance, are set out in the detail of Principle 2.

Principle 3 - Measuring the contribution: there is a need to have clearly defined accounting policies and basis of preparation to consistently measure the contribution made by each credit institution.

The primary purpose is to ensure that each firm is able to take credit for the extent of its contribution, while at the same time ensuring that collectively firms are minimising any double counting.

The overarching principle is that investors and others should be able to add together all institutional commitments and form a consolidated view of what has been provided.

Guidance is given in respect of facilitation, advisory services, financing and investment.

It is noted that in the EU materiality for non-financial information is based upon a dual perspective of the impact on both the firm and the environment or society; while this has parallels elsewhere it is not a universally accepted concept.

Principle 4 – Reporting and disclosure: transparency is key and it is expected that institutions with stated sustainable finance commitments will disclose:

- a. overall governance over the sustainable finance commitment;
- b. total commitment value, timeframe for the target value and the rationale/approach taken for selecting both the value and timeframe;
- c. a quantitative breakdown of the products/services included within the commitment;
- d. a narrative account enhancing understanding of the activities involved and the sustainability goals that are driving the firm's approach, including reference to instrumental national or international initiatives;
- e. definitions used, including any frameworks, taxonomies and methodologies as applied to each broad group of products/services, including key judgements, and their application in the collation, measurement and reporting of sustainable finance commitments.

Impact assessment is a longer-term aspiration, as is external verification consistent with 'reasonable' assurance; shortcomings in data, definitions and metrics currently determine that 'limited' assurance is more realistic.

Proportionality is a consideration and smaller firms are encouraged to apply these Principles in a balanced way reflective of their geography and business mix.

Principle 1 - Governance

There is, in the first instance, a growing expectation for firms to fully embed the consideration of financial risks from climate change into their governance framework.

This involves board level engagement and accountability and is integral to ensuring that there is adequate oversight of the firm's business strategy and risk appetite. It also involves the board and its sub-committees having clear responsibilities for managing financial risks from climate change. However, it is recognised that we remain at a formative stage in terms of initial climate-related tools, metrics and processes and that these continue to evolve.

Placing responsibility for governance around climate-related risks within the context of a firm's governance and strategy is a TCFD commitment and larger firms at least are already committed to this. It is important to appreciate that climate risk should be viewed as part of more traditional banking risks – credit, market and operational – and also as an opportunity, and so the right approach is likely to involve spreading responsibility across the firm. The framework proposed here should be seen as a complement to arrangements put in place in order to provide TCFD-compliant disclosures. For UK PRA-regulated firms, Supervisory Statement 3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' and the 1 July 2020 'Dear CEO' letter set out expectations in respect of governance and how it should align to a firm's business strategy. This includes responsibility for climate risk being allocated under the Senior Managers Regime.

There is also a growing expectation that firms making multi-year commitments to sustainable finance build environmental, social and governance considerations more comprehensively into their governance structure based on the model currently being developed with a narrower focus on climate. The key is for responsibility for 'ESG' aspects of financial decisions to be brought into mainstream governance arrangements. This should be seen as part and parcel of board responsibility for purpose, strategy and the design of the business model intended to achieve ESG goals.

There should be appropriate governance and controls in place to enable consistent categorisation of products, services or transactions when including them as qualifying towards the firm's commitments. It is recommended that the firm follows its existing governance for external reporting when publishing updates on progress.

Principle 2 – Definitions

Sustainable finance is not limited to supporting environmental ("green") initiatives; it can be broader and cover all relevant ESG areas, including by reference to SDGs and commitments made to a just transition.

The products or services included as sustainable finance should align to publicly available standards where available. Within a UK and European context, the EU green taxonomy is likely to be of core relevance³. Where standards do not exist, or are not fully formed, it is recommended that firms seek guidance and advice from a third party specialist and/or one of the globally recognised bodies which maintain standards; it is understood this may not be appropriate in the retail space for specific labelled products, for example personal loans for solar panels. In all cases any labelled product should have been subject to the firm's standard product governance practices.

Sustainable finance includes facilities for a specific 'use of proceeds', where finance is provided to businesses and organisations engaged principally in green or social activities, and there is alignment to eligible criteria based on a published framework.

Sustainable finance also includes facilities in support of the transition to a low carbon economy. In this case, there is an expectation that the client can demonstrate the emissions reduction achieved, including through the provision of data.

The focus should be on the flow of new capital to the sustainable marketplace. Whilst refinancing is allowable under standards such as the Loan Market Association's (LMA) Green Loan Principles, care should be taken so as not to double count. A revolving credit, for instance, represents the renewal of an existing facility as opposed to the provision of additive finance for this purpose; syndicated loans should only be included on the basis of the proportion of the syndication that the firm is responsible for. It is recommended that firms appropriately disclose their accounting policies and basis of preparation in this regard consistent with Principle 3.

Products and services contributing to multi-year commitments to sustainable finance can be grouped into broad categories as shown overleaf. The measurement value included within each category will vary by institution depending on their business model and/or strategic priorities.

3. We would add that UK Finance is participating in a European Banking Federation/UNEP FI initiative aimed at improving the practical application of the EU taxonomy to banking products and services and looks forward to the publication of the key findings early next year.

Facilitation

Facilitation services in support of clients issuing new equity, debt or securities instruments involves some level of underwriting and is referred to as the firm acting as a ‘bookrunner’.

Key considerations:

- Use mechanisms (established and/or new) and or standards where available, for example, but not limited to; ICMA bond principles, Climate Bonds Initiative and Transition bond principles, EU Taxonomy.
- New capital or debt is raised.
- There is a specific ‘use of proceeds’ which aligns to eligible criteria based on a published framework; or
- the business model aligns to eligible criteria based on a published framework; or
- the business solely operates in a sector that aligns to eligible criteria based on a published framework.

Where a firm includes a self-issuance, i.e. the firm itself has issued a green bond, it should clearly articulate the value of any ‘assets’ included in the financing section underpinning the issuance.

Advisory

Advisory services provided take many forms. In most cases there are multiple advisors involved in a transaction and this can lead to challenges in quantifying the value of the advice where no underwriting or financing occurs; it can also lead to industry double counting.

Key considerations:

- Advisory services for M&A activities is an area for further consideration as there is not necessarily any ‘new’ capital, plus there is no standard approach to value the transaction for both buy side and sell side, leaving potential for double counting. It is recommended this does not contribute towards commitments; instead that firms report on this qualitatively.
- Advisory services where underwriting or financing is also provided by the firm should not be included as they represent a double count.
- Advisory services where underwriting or financing is provided by other firms should only be included when there is a clear rationale for inclusion, suitable disclosure is made, and the firm is satisfied that inclusion does not represent a double count.

Financing

Financing includes any type of loan instrument, or contingent liability, to any client where new finance is provided or re-finance of qualifying activities not previously included within the commitment. Suitable governance and controls need to be in place so the firm can demonstrate appropriate assessment has been undertaken when classifying the facilities as qualifying.

Key considerations:

- There is a specific ‘use of proceeds’, this being specific project/asset alignment to eligible criteria based on a published framework, for example, but not limited to, the Loan Market Association (LMA) Green Loan Principles; or
- the business model aligns to eligible criteria based on a published framework; or
- the business solely operates in a sector that aligns to eligible criteria based on a published framework; or
- the terms & conditions of the product reflect the specific asset or product that aligns to appropriate framework or qualifying criteria (e.g. Green Loans, Green Mortgages, Solar Panel Loans, Electric Vehicle Loan), covering both retail and corporate customers; or
- the client can clearly demonstrate that the funding received is being used to enable them to transition to a lower carbon existence.
- Sustainability Linked Loans are an area for further consideration regarding inclusion. These loans provide an incentive to make improvements, but penalise clients who do not achieve the required indicators. The indicators should be related to either ‘E’, ‘S’, ‘G’ or a combination. The indicators should be ‘appropriate’ and ‘ambitious’. If a firm wishes to include these facilities as sustainable finance, they should be subject to internal governance before inclusion. Where included, firms should be clear and transparent in demonstrating the value of facilities included.
- Where a firm ‘purchases’ a green loan after it has closed from another financial institution, this may contribute to the sustainable finance totals of the acquiring institution recognising the loans on its balance sheet, but should be deducted from the originating institution in line with the balance sheet removal. The preceding guidance on facilitation and advisory services addresses transactions that are ‘off-balance sheet’ in nature.

Investments

For those credit institutions which provide and/or own asset management services, sustainable investments are an area for inclusion. The Principles for Sustainable Investment, along with other industry standards, are already established. Based on the existing principles, the appropriate considerations and accounting when including sustainable investments in their commitments include:

- Any funds included should align to the Principles of Responsible Investment and/or any other recognised industry standard for responsible investments.
- The funds included should be sustainable or impact investments that focus on companies that have a positive impact. It is understood the investments can include companies that represent the real economy and can have a 'neutral' impact, but not include companies that have a negative impact.
- While negative screening is a valid method, there needs to be an element of positive screening as well.
- The measure should be the new flow to the investment over a given time to demonstrate the new capital being invested, rather than the full fund asset under management, unless it is a newly created fund.
- To avoid industry double counting, the asset management units that own the fund should include investments within their measurement of sustainable finance commitments, whereas the retail or private banks selling or distributing funds in a third party capacity should not. It is instead recommended that retail or private bank sustainable investment activities are separately disclosed.

Overall Considerations

Multi-year commitments to sustainable finance should be viewed principally from the assets side of the balance sheet, i.e. based on the sustainable purpose financed. Funds raised by green or sustainable bonds, and in jurisdictions where relevant green or sustainable deposits are held, tell part of the story, but from the liabilities side of the balance sheet. These should be disclosed, but care taken not to double count in terms of the measurement of strategic commitments for sustainable finance.

The definition, standard or taxonomies along with the basis of preparation used should be clearly stated as part of the disclosure when reporting on progress of the firm's commitment. The firm should also have appropriate governance and controls in place to demonstrate due consideration and assessment has occurred before the facility can be included. It would also be helpful to provide the rationale for why specific products/services/flows are in-scope of the commitment.

Treasury activity and short-term funding, including commercial paper and certificates of deposit, may merit qualitative disclosure. Contributions to lending to sustainable projects using own capital should not be aggregated with the third-party assets of an asset management enterprise that are invested in sustainable assets. In the former, the firm is providing the capital, in the latter it is earning fees from the capital provided by others.

Principle 3 – Measuring the contribution

There is a need to have clearly defined accounting policies and basis of preparation to consistently measure the contribution made by each credit institution.

The primary purpose is to ensure that each firm is able to take credit for the extent of their contribution, but at the same time ensure that collectively institutions are minimising any double-counting which could present a misleading position of the sector's total contribution. The overarching principle is that investors and others should be able to add together all institutional commitments and form a consolidated view of what has been provided.

The intention is to develop guidance on acceptable practices for measuring the contribution (monetary value) associated with products and services that are included within the sustainable finance commitment that a firm has made. This guidance does not address or replace how firms account for their products and services in their financial statements. It is expected that firms should be sufficiently transparent in their disclosures on how they have measured their contribution.

At this stage, the approaches to measurement focus upon monetary value and not measurement of impact. The following are current initial approaches that are suggested; it is expected that these will evolve over time:

- **Facilitation**, particularly in the bond market, has reasonably well-established mechanisms in place. Inclusion in commitments will be on a proportional bookrunner share, being the amount of capital raised divided by the number of bookrunners. This should be able to be validated via an external source and/or recognised league table.
- **Advisory services**, especially M&A, is an area for further consideration; it is recommended, however, that only limited activities, if any, contribute towards commitments, and that firms report on this activity in their wider disclosures.

- **Financing products** represent the risk the firm is taking and the amount of capital that an individual firm has provided to the client. In the case of syndicated transactions, the firm will only include the amount they provide, not the full amount. The amount included will represent new facilities or refinanced facilities (not representing a double count) provided by the firm, being the limit at execution, as the commitment is a cumulative number. This will not change over time and does not represent an exposure (balance) position. It is understood that this is not a balance sheet number and that the facility 'limit' will potentially include drawn and undrawn amounts. Also, where a facility is redrawn, as in the case with revolving facilities, the limit is only counted once. It is recommended that a separate sustainable finance exposure or balance sheet position is published as part of the firm's disclosure.
- **Sustainable Investments**, the contribution measure should be the new flow to the investment fund. This will be the inflows from the time the fund is included in the commitment, or from the start of the commitment, rather than the full fund asset under management amount, unless the fund is newly created during the commitment period.

In determining whether or not finance should be defined as 'sustainable' firms will need to be cognisant of differing forms of materiality that may apply. In the EU, for instance, materiality for non-financial information is currently based upon a dual perspective of the impact on both the firm and environment or society. While this has parallels elsewhere, it is not a universally accepted concept. The statement of intent issued by the five leading voluntary framework and standard setters in September refers to the concept of 'dynamic materiality', in which issues once considered relevant only to social value can rapidly become financially material. It observes that in this sense sustainable value creation lies at the intersection of social and corporate value.

Principle 4 – Reporting and disclosure

Transparency is key in respect of sustainable finance given the current lack of a common framework for ‘non-financial’ performance measures.

It is expected that firms that have set or plan to set sustainable finance commitments will disclose:

- overall governance over the sustainable finance commitment;
- total commitment value, timeframe for the target value and the rationale/approach taken for selecting both the value and timeframe;
- a quantitative breakdown of the products/services included within the commitment;
- a narrative account enhancing understanding of the activities involved and the sustainability goals that are driving the firm’s approach, including reference to instrumental national or international initiatives;
- definitions used, including any frameworks, taxonomies and methodologies, as applied to each broad group of products/services, including key judgements, and their application in the collation, measurement (in monetary terms) and reporting of sustainable finance commitments.

It may be helpful to present the quantitative breakdown of products/services in tabular form:

Type	Product	2019	2020	Total
Facilitation	Green Bonds	10bn	15bn	25bn
Facilitation	Social Bonds	5bn	10bn	15bn
Financing	Green Loans	2bn	4bn	6bn
Financing	Green Mortgages	1bn	2bn	3bn
Financing	Renewables	1bn	1bn	2bn
Investments	Low carbon fund	1bn	1bn	2bn
	Total	20bn	33bn	53bn

The table above should be viewed as illustrative only; other presentations e.g. based around product and type are equally applicable. As noted under Principle 2 above it may be appropriate to report upon M&A activity separately within the narrative account.

The point is that it would be helpful for investors and other stakeholders to be given a clearer idea of the sustainable activities that the firm is funding. The precise presentation will depend on the mix of these and the nature of the products and services involved, including e.g. the fact that activities in support of the greening of the economy may also have a significant social element. In determining the breakdown to be given, firms will wish to balance their wanting to provide information that is comparable in the marketplace (at the most specific product level) and their wanting to ensure a reasonable standard of proprietary consistency year-on-year.

The expectation is that reporting will develop over time and that firms have an aspiration to move towards reporting on the impacts of their commitments, whilst aligning to the requirements of new standards and/or taxonomies.

Formal external assurance is not a requirement of the Principles, though it is recommended in order to add credibility to disclosed information, especially where the sustainable finance commitment performance is linked to remuneration. We would add that, while we consider that the destination should be for sustainable finance to be externally verifiable to a standard consistent with ‘reasonable’ assurance, we are not yet at a stage where this is universally supported by data, definitions and metrics needed in order to provide such assurance.

It may therefore be that ‘limited’ assurance is more realistic and in keeping with what can reliably be provided. In any event, the expectation is for transparency in terms of the level of assurance provided.

Firms may seek third party assurance from their external auditors, other expert parties or a mix of the two. Independence is the key. Cost ought not be a factor as the firm will need to have in place processes commensurate with reported activity material to its strategy.

Proportionality

Proportionality is a consideration and smaller firms are encouraged to apply these Principles in a balanced way reflective of their geography and business mix. While it is fully appreciated that, for instance, a specialist mortgage provider may wish to think about its strategic commitment to sustainable finance in terms of its mortgage products and services, societal expectations in respect of ESG factors equally apply.

APPENDICES

Appendix A: List of institutions involved in the working group

This paper has been approved by a senior, broadly constituted Sustainability Committee reporting directly into the UK Finance Board.

The following institutions were directly involved in working group research, discussion and drafting:

- HSBC (Chair)
- Bank of Ireland UK
- Barclays
- BNP Paribas
- Handelsbanken
- NatWest
- Paragon
- PwC
- Refinitiv
- Santander UK
- Standard Chartered
- Virgin Money

PwC acted in an advisory capacity also contributing desk-based research on strategic commitments to sustainable finance.

Appendix B: initial questions to the working group

Question 1: Vision and rationale

Is the vision and rationale of having a common framework right and is now the right time to focus upon establishing the framework?

Question 2: Green vs sustainable

Should the definition of sustainable finance be limited to environmental/climate change – ‘green’ or be broader covering all relevant ESG areas, such as Sustainable Development Goals, Transition, Net Zero, etc.? There are existing frameworks, such as the EU taxonomy and SDGs that may be suitable reference points. Is there a role for ESG index providers, such as MSCI, Refinitiv, etc.

Question 3: Flow of capital

Is the flow of capital a key consideration? For example, would capital associated with M&A activity be appropriate to include in measuring progress? Should the contributions be aligned or linked to the financial institution’s financial statements

Question 4: Value of the contribution/attribution

Is there a need to have clearly defined accounting policies to consistently measure the contribution made by each financial institution? Does the current ‘double-counting’ provide a misleading position?

Question 5: Reporting and assurance

Internal and external disclosures are essential and therefore is there a need for a reporting framework and possibly underpinned by formal assurance?

Question 6: Other sustainable finance initiatives

There are several other initiatives / working groups looking at sustainable financing and so how should this group interact with them? Who would take responsibility for the longer-term governance and oversight of any framework that is developed?

Appendix C: March 2020 PwC survey

Introduction

The overall purpose of the high-level desk-based survey by PwC had been to ascertain how credit institutions had developed and articulated their multi-year commitments to sustainable finance, and thereby determine the extent of commonality or otherwise. The intention was then to use this to inform a wider debate on developing a common framework for multi-year commitments to sustainable finance.

Scope and approach

Thirty firms were selected for the survey, primarily based on general market knowledge, that each had some form of multi-year commitment to sustainable finance (list provided at the end of this document). The PwC team used publicly available information to complete the survey - the major source being each firm's website.

The survey focused upon the following key areas:

- Overall description of the sustainable finance commitment, including commitment target (value and date);
- Description of sustainability criteria, as well as products and services included within the multi-year commitment;
- Description of the accounting methodology applied for each product and service (e.g. what proportion of a syndicated loan value counted/attributable to the institution); and
- Extent of the reporting/disclosure of the multi-year commitment, including assurance.

In the following sub-sections, PwC have set out the key findings from the information gathered.

1. Commitment and target setting

In general, many of the firms in the survey have established some form of commitment for the provision of sustainable financing services and many have established a monetary value.

Key findings:

- 25 out of 30 firms in the survey analysis had made a commitment for the provision of sustainable financing.
- The primary focus of all firms making a commitment is the environment and contribution to the 'green economy' - none have a singular focus on only societal impacts.

- None of the firms have disclosed the rationale or methodology for selecting the specific monetary value of their commitment and target date.
- The monetary value of commitments ranged from USD4.5 billion to USD200 billion with the average value of the commitment of USD114 billion and total value of over USD2,736 billion⁴.
- The above total commitment values translated to approximately USD390 billion per year and an average 'contribution' by each firm of USD16.26 billion.
- The majority of firms have set one target in relation to sustainable finance. Although we have noted that:
 - Two firms have set two separate targets - one for financing and the other for facilitation; and
 - Four firms have set two separate targets - one relating to the environment and the other relating to broader societal impacts.
- The majority of firms started their commitment period from 2017 or later (21 out of 25) and mainly ending either in 2025 or 2030.

2. The criteria for sustainable finance⁵

The purpose of the investment, financing or advice defines whether it is sustainable finance or otherwise. All firms, to varying levels of detail, have set out what they define as sustainable finance.

Key findings:

- As noted previously, all those making sustainable finance commitments have environment/climate change within the sustainable finance criteria.
- 56% (14 out of 25) specifically reference environmental products and services such as green financing, low carbon financing, financing of energy transition, climate finance.

4. The monetary values have been calculated based on the numbers that have been disclosed by the institutions and exclude any general references to the size of the commitment.

5. 'Sustainable finance' is used to cover the different terms that are used by firms to describe the ESG/sustainability commitment as it is the most commonly used term.

- 44% (11 out of 25) use broader terms that relate to sustainability, including five (5) that have used “sustainable finance” and three (3) who have specifically noted the aim to contribute to United Nations Sustainable Development Goals.
- 40% (10 out of 25) of the firms include some societal impacts within their criteria and only 8% (2 out of 25) include a governance category within their criteria.

3. Products and services included in the commitment

For clarity some of the firms have disclosed the products and services that contribute or will be contributing to the commitment

Key findings:

- 19 out of 25 firms disclose a full or partial list of the products that are included in their commitment. A summary of products and the number of firms out of the 19:
 - Green Bonds (14 institutions)
 - Green Loans (8 institutions)
 - Advisory Services (7)
 - Project Finance (7)
 - Mergers and Acquisitions (2)
 - Sustainability/ESG linked loans (5)
 - Sustainability Bonds (5)
 - Social Bonds (2)
 - Socially Responsible Investments (2)
- Very few mention specific criteria / external guidance they use to determine whether products and services are included or excluded from their commitment. Examples of criteria / external guidance include:
 - ICMA: Green Bond Principles
 - Climate Bonds Initiative: Climate Bonds Taxonomy -
 - London Benchmarking Group methodology
 - LMA: Sustainability linked Loan Principles and Green Loan Principles
 - Global Sustainable Investment Alliance (GSIA) global standard of classification (SRI funds)
- 28% (7 out of 25) include a varied level of description (methodology) of how they have determined the monetary value of each product / service to include in their reporting of the commitment. The differences in approaches highlight multiple counting of the same investment or loan value by several firms.

4. Reporting on the commitments

Transparency on the progress being made with commitments is important and a variety of channels are being used to demonstrate this progress.

Key findings:

- 84% (21 out of 25) have reported on the progress of their commitment using at least one or a combination of channels: annual report, ESG report or website.
- In most instances the reporting has been at a total level and not at a granular level by products or services, or sustainability categories (environment, social, governance).
- Only 8% (2 out of 25) obtain independent assurance over the progress made with their commitment even though many have some level of connectivity to executive remuneration.

The firms included in the survey analysis are listed below.

- Australia and New Zealand Banking Group
- Bank of America Merrill Lynch
- Bank of Montreal
- Barclays
- Banco Bilbao Vizcaya Argentaria, S.A
- BNP Paribas
- Citibank
- Commonwealth Bank of Australia
- Credit Agricole Group
- Credit Suisse Group
- DBS Bank
- Deutsche Bank
- Goldman Sachs Group, Inc
- HSBC Holdings
- Industrial and Commercial Bank of China
- ING Group
- Banco Itaú S.A
- JPMorgan Chase
- Lloyds Bank
- Mitsubishi UFJ Financial Group
- Morgan Stanley
- National Australia Bank
- Royal Bank of Scotland
- Banco Santander, S.A
- Société Générale S.A
- Standard Chartered
- Toronto-Dominion Bank
- UBS Group AG
- Wells Fargo
- Westpac Banking

Appendix D: June 2020 standards and guidance sampling

Type	Product	Definition	Frameworks	Accounting	External Sources
Advisory/ Facilitation	Green, Social Sustainability Bonds	Participation (bookrunner) in Green, Social and Sustainable (GSS) Bond (including Asset Backed Securities) issuance as defined by a green, social or sustainable bond framework	Organisations own Sustainable Finance Framework ICMA Green, Social and Sustainability Bond Principles Climate Bond Standard, EU Green Bond Standard (EU GBS), EU Taxonomy	Proportional Bookrunner Share	Dealogic
Advisory/ Facilitation	Debt Capital Markets (DCM)	DCM for qualifying social and environmental themes as defined by the Organisations Sustainable Finance Framework - based on issuer business mix eligibility	Organisations own Sustainable Finance Framework ICMA Green, Social and Sustainability Bond Principles Climate Bond Standard, EU Green Bond Standard (EU GBS), EU Taxonomy	Proportional Bookrunner Share	Dealogic
Advisory/ Facilitation	Equity Capital Markets (ECM)	ECM for qualifying social and environmental themes as defined by the Organisations Sustainable Finance Framework	Organisations own Sustainable Finance Framework	Proportional Bookrunner Share	Dealogic
Advisory/ Facilitation	KPI/Sustainability Linked Bond	KPI/Sustainability Linked Bond Principles	ICMA GBP/SBP Working Group on Sustainability Linked Bonds	Proportional Bookrunner Share	Dealogic
Financing	Green Loans - to corporates	Loans aligned to the Green Loan Principles (GLP) Loans aligned to own Sustainable Finance Framework Loan with special conditions e.g. – Clean Transport, Renewable Energy, Energy Efficiency, etc.	Loan Markets Association (LMA), LSTA, APLMA	New facilities provided (committed amount, being the limit at execution)	
Financing	Other Green Loans - to corporates	Loans (includes any type of loan instrument to finance or re-finance) that to companies whose business model is eligible as per own Sustainable Finance Framework Loans that do not meet the full requirements of the. However, the Use of Proceeds are determined to meet criteria for eligible green projects as defined in the GLP	Organisations own Sustainable Finance Framework, EIB	New facilities provided (committed amount, being the limit at execution)	
Financing	Green Trade Finance - to corporates	Green Trade Loans provide a facility to bridge the working capital funding gap between a client making payments to their suppliers and receiving payment from their customers for use in eligible green activities as defined by the own Sustainable Finance Framework or aligned to GLP.	Own Sustainable Finance Framework, LMA GLP	New facilities provided (committed amount, being the limit at execution)	
Financing	Green Project Finance - to corporates	Project Finance for eligible projects that support environmental themes as defined by the own Sustainable Finance Framework	Organisations Own Sustainable Finance Framework ICMA Green, Social and Sustainability Bond Principles - UoP only Climate Bond Standard - UoP	New facilities provided (committed amount, being the limit at execution)	
Financing	Green Mortgage	Mortgage with special conditions when supporting a customer to buy an efficient property		New facilities provided (committed amount, being the limit at execution)	
Financing	Consumer loan for green purposes	Loan with special conditions to support customers to buy a specific 'green' item i.e low carbon / electric vehicle, energy efficiency, renewable energy		New facilities provided (committed amount, being the limit at execution)	
Financing	Sustainability-Linked (KPI) Loans	Sustainability-linked financing facilities are loan instruments or contingent facilities which incentivise the borrower to achieve a pre-determined sustainability target or targets by linking them to the pricing mechanism of the facility. Sustainability targets which are included in the pricing ratchet can be for individual performance metrics or linked to third party ESG scores. These facilities enable the integration of sustainability factors into a broader set of products and offer an additional means of engaging clients on sustainability considerations.	Own Sustainable Finance Framework LMA Sustainability Linked Loan Principles, LSTA, APLMA	Organisations hold of the deal value	
Investments	Socially Responsible Investment (SRI) Funds	Assets under management in funds that are defined as socially responsible investments ('SRI').	Global Sustainable Investment Alliance (GSIA)	Net New Flows	
Investments	Responsible funds	ESG Integration Guidelines and Policy	UN Principles of Responsible Investments		
Investments	ISR Label	ISR Label	Independent bodies (eg Afnor Certification)		
Investments	All funds	Assets under management in funds that are defined as responsible investments	PRI	Funds invested	
Investments	Impact and thematic Investment	Investments made by Asset Management Unit into investment funds focused on investing in sustainable and social impact related businesses	UN Sustainable Development Goals	Funds invested	
Investments	Funds with exclusion strategies	Fund applying the exclusion criteria for controversial sector such as fossil fuels	Fondbolagensforening (The Swedish Investment Fund) and UN Global Compact	Funds invested	
Investments	Sustainable fixed income products Green, Social Sustainability Bonds	Sustainable fixed income products investing only Green, Social Sustainability Bonds and pure player issuers	ICMA, Climate Bonds Initiative	Funds invested	

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