

Brussels, 28 May 2019

## **EBF response to the UNEP FI Consultation on the Principles for Responsible Banking**

### **General Remarks:**

Banks play an essential and pivotal role in financing the global transition towards a sustainable low-carbon economy and recognise this as part of their purpose and role in society. Banks are taking their responsibility very seriously, especially in Europe, where they finance two thirds of the economy.

The European banks are increasingly considering sustainability as a key factor of their business strategy and a number of banks have committed to steering their portfolios to meet the Paris agreement, for investments in sustainable finance.

The European Banking Federation was one of the first endorsers of the principles and is committed to promoting this initiative in the banking sector in Europe. Together with UNEP FI, we organised a Principles for Responsible Banking (PRB) workshop on 5 February 2019 and an educational webinar on 14 May 2019. We have actively promoted the initiative across European and international fora.

Our response to this consultation aims at improving the clarity and operability of the Principles and at pointing out some areas flagged by our members as the most challenging from the operational and implementation perspective, where more work on methodologies, clarification or provision of illustrative examples would be desirable.

### **European Banking Federation aisbl**

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**Question 1: Are there any gaps or elements that the Principles do not cover? How should this be addressed?**

**Answer 1:**

Being aligned with society's goals as expressed in the Sustainable Development Goals (SDGs) and the Paris Agreement, as well as with the main international initiatives on sustainable development, the PRB enable banks to integrate all aspects of sustainability (environmental, human, social, economic) in their strategy and business models. We consider the principles comprehensive and do not see any immediate need for enlarging them to embrace other elements.

Whilst from a management perspective, the PRB incorporate many elements of the established systems for sustainability management, from operational perspective, the current lack of resources and coherence within the banks, as well as lack of data and methodologies to undertake the materiality impact assessment, represent for some banks a major obstacle to adhering to the principles in time for September 2019.

They will need more time to develop long-term targets, key performance indicators (KPIs) and performance measurement systems to address the negative impact in the focus areas and increase positive impact. Alignment of existing or future strategic focus on sectors and technologies, type and location of clients and retail customers, products and services with the SDGs, Paris Climate Agreement and other relevant national, regional or international frameworks and adaptation of business strategies, governance and action plans with society's goals will also take some time.

We therefore very much welcome the UNEP FI providing training and, in cooperation with experts, further developing, tools, methodologies and approaches to assist banks with the implementation. To promote additional adoption throughout the banking sector, it is important that a certain form of training and assistance be accessible to all banks, not only to UNEP FI members. The EBF stands ready to continue its cooperation with the UNEP FI to provide any assistance in further promotion of the PRB adoption and its awareness and support amongst banking leaders.

Gradually, we expect more and more banks to adhere to the Principles, especially in Europe, where PRB are seen as an important complement to the forthcoming European legislative and non-legislative measures on sustainable finance.

**Q2: Do the current target setting requirements provide an effective mechanism for driving banks' alignment with and contribution to society's goals? Do you see elements in the target setting requirements or the Principles more broadly that could be strengthened/introduced to drive change even more effectively?**

**A2:**

We understand that the PRB as the first global comprehensive framework for responsible banking requires strong balancing between many different considerations.

We would like to suggest the possibility of assessing the need to align financial/economic objectives with sustainability targets. The demonstration that financial sustainability is

directly proportional to environmental and social sustainability needs to be further investigated and specified.

Target setting is a good first step to drive banks' alignment with and contribution to society's goals. However, targets are much more effective when coupled with the right cultural transformation. This includes both integrating sustainability as a part of the employees' daily work life and empowerment to make the right decisions at the right level.

The outline and examples with regard to target setting tend to steer towards climate. The chapter could be strengthened with additional concrete examples of KPIs that could be applied, both regarding climate and on social and governance parameters.

**Q3: Does the Implementation Guidance provide clear guidance on what is expected from banks and on how to implement the Principles? If not, what gaps do you see and how could they be addressed?**

**A3:**

The Implementation Guidance is clear. We would however like to see more specific recommendations developed on:

- How to integrate sustainability risks in the overall risk management. Information included in the Implementation Guidance in this regard is too general and does not go into the necessary depth. There are already some tools that banks can use for integrating sustainability into their business model, but tools are often topic specific (i.e. Task Force on Climate-related Financial Disclosures (TCFD) recommendations focused only on Climate Change).
- The development of impact assessment is the first step in implementing the PRB. Banks often miss the necessary information for producing a concrete impact assessment. Information on banks' indirect impact on environment and society referring to retail and SME clients could be very difficult to collect. We should keep in mind that in the case of PRB both environmental and social issues will have to be addressed (not just Greenhouse (GHG) emissions and climate change). However, if we focus on climate first, when and how do we tackle e.g. the social impact of banks' portfolios? What is the urgency compared to climate? We would like to understand these aspects and would appreciate more guidance on the assessment of social impact.
- The UNEP FI has indicated that the alignment with TCFD is feasible. It is however not entirely clear how plans to meet TCFD obligations in full fit with the alignment to the principles for responsible banking. While both have the Paris Agreement at their core, and the principle on 'impact' explains that "*banks can use the SDGs, the Paris Climate Agreement and other national, regional or international frameworks to identify, assess and be transparent on significant (potential) positive and negative impacts resulting from the bank's capital allocation decisions and its provision of products and services*", we would see merit in the implementation guidance making a much clearer statement to the effect that embedding the TCFD framework into climate-related risk management strategy has the potential to go a very long way to meeting responsible banking obligations under the principles insofar as climate change is concerned.
- While the materiality assessment and the ability to focus upon most significant impacts help, it is not clear how to deal with information gaps nor to what proportionality might mean in the context of differing market circumstances? The TCFD for example recognised that there were information gaps and for this reason made clear that some

of its recommendations, particularly around sensitivity analysis, needed to be viewed as being set within a 3-5 year developmental timeframe. Some clarification would be appreciated.

**Q4: Is the reporting template clear about what banks are required to report on?**

**A4:**

The reporting template is clear. We would like to suggest the following inclusions:

- General information of the Bank (name, address, contacts and webpage)
- The name of the Public Report (Balance Sheet? Non-Financial Disclosure? Other?) which the bank refers to and where to find it.

**Q5: Is the information required in the Reporting template helpful for assessing a bank's sustainability performance? Is there any additional information that should be requested for this purpose?**

**A5:**

Allowing banks to include PRB integration directly in Public Reporting without producing any other specific report is very welcome. This enables banks to reduce disclosure burden.

As some banks already carry out Global Compact progress reporting and also have national and upcoming regional (EU) legislation to comply with in the area of reporting, further reporting requirements add complexity and costs, and may in some areas be redundant.

Arguably, PRB approaches the information with a new lens, however, from our perspective, further information should not be required. We want to avoid a situation where the reporting requirements become so comprehensive that they act as a deterrent for banks that consider signing up. The current balance seems appropriate.

**Q6. Please provide any additional comments, inputs and suggestions for changes. This could include suggestions for additional links to relevant resources to include in the Implementation Guidance.**

**A6:**

N/A

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**About the EBF**

The European Banking Federation is the voice of the European banking sector, bringing together 32 national banking associations in Europe that together represent a significant majority of all banking assets in Europe, with 3,500 banks - large and small, wholesale and retail, local and international - while employing approximately two million people. EBF members represent banks that make available loans to the European economy in excess of €20 trillion and that reliably handle more than 400 million payment transactions per day. Launched in 1960, the EBF is committed to a single market for financial services in the European Union and to supporting policies that foster economic growth.

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