



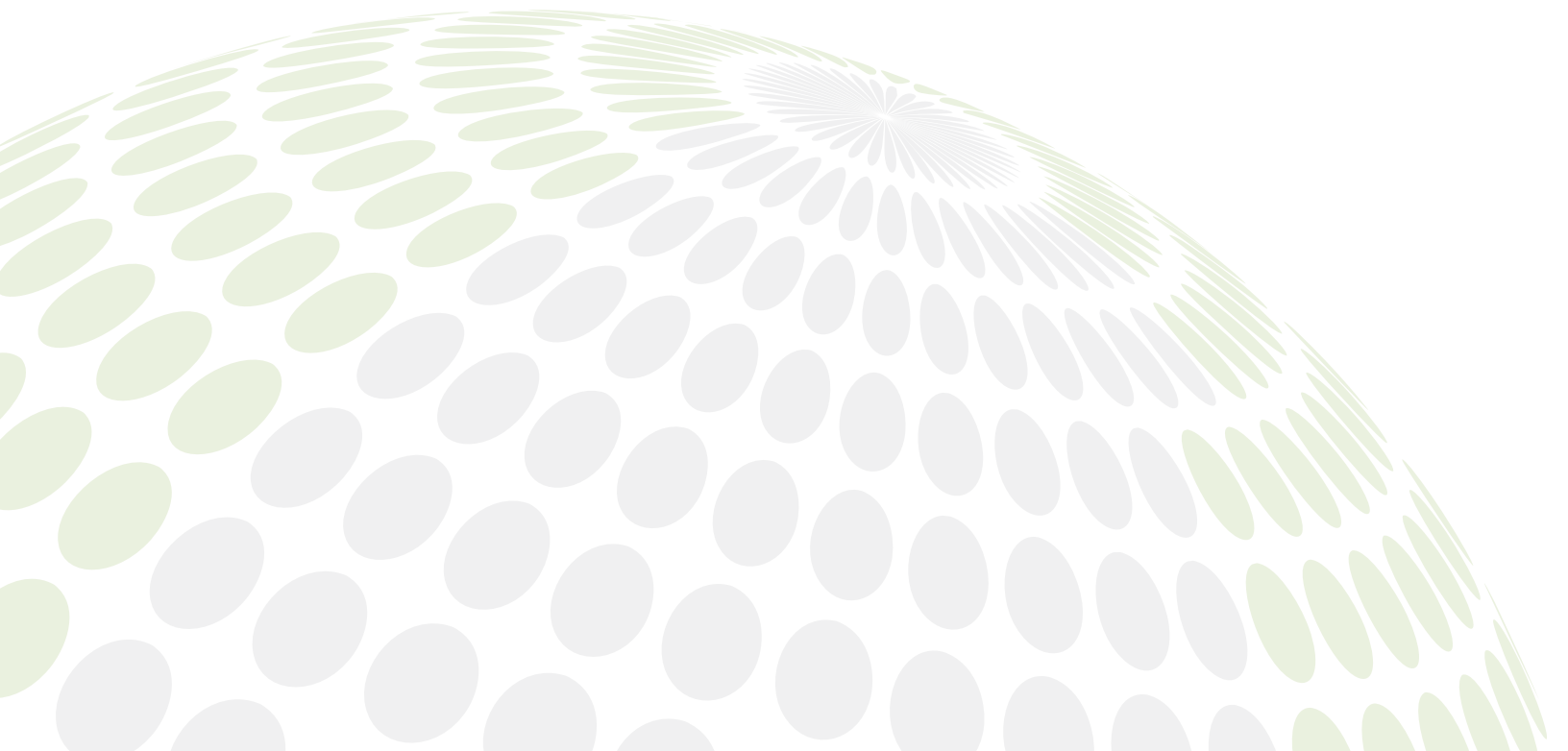
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GFMA Sustainable Finance Survey Report

June 2019



ABOUT GFMA

The Global Financial Markets Association (GFMA) represents the common interests of the world's leading financial and capital market participants, to provide a collective voice on matters that support global capital markets. We advocate on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end-users by efficiently connecting savers and borrowers, benefiting broader global economic growth.

GFMA brings together three of the world's leading capital markets trade associations to provide a forum for the largest globally active financial and capital market participants to develop standards to improve the coherence and interaction of cross-border financial regulation. We aim to improve the functioning of global capital markets to support global economic growth and to support lending and to serve clients in those jurisdictions they want to do business.

The Association for Financial Markets in Europe (AFME) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

INTRODUCTION

Global financial institutions have a critical role to play in meeting the objectives of the Paris Agreement and the United Nations Sustainable Development Goals. Their greatest opportunity to contribute is to provide or facilitate trillions of dollars in financing by mobilizing bank and capital markets. Financial institutions are already leading the way in their own business strategies and in how they work with clients and investors.

The survey, conducted in May and June of 2019, is based on the anonymized and aggregated responses of 22 of the largest globally active financial and capital market participants. The findings of this survey will be helpful to global financial institutions to benchmark against their peers and also to help inform future policymaking.

This survey has five sections that demonstrate how global financial institutions are addressing environmental, social and governance considerations, including the management of physical and transitional climate risks, for themselves and their clients:

- 1. Defining Sustainable Finance:** Firms are working towards taxonomies that will provide much-needed clarity for investors and credibility for a still nascent market.
- 2. Sustainable Finance in Strategic Planning, Corporate Structure and Governance:** Global financial institutions are increasingly building climate change and sustainable considerations into their core businesses. Leadership at the highest levels of firms has identified sustainability as a business prerogative and firms are committing to significant investments to support the transition to a sustainable global economy.
- 3. Products and Services:** Global financial institutions are incorporating sustainable finance products and services across their business lines. They follow best practices and frameworks to ensure the integrity of the sustainable finance market, and work closely with their clients across many sectors to support their own sustainability objectives and transition commitments.
- 4. Climate-Related Risk Management and Disclosures:** Firms are developing new metrics and methodologies to account for climate-related risks to ensure the soundness of their own businesses and their clients' businesses. They are exploring new ways to gather and leverage data, both for their internal risk management, as well as for public disclosures that will promote the transparency of their sustainability strategies and make their various specific commitments fully and consistently measurable.
- 5. The Role of Policymakers:** The industry recognizes the role policymakers and regulators will need to play to scale up the sustainable finance market. However, industry participants fear that the policy makers may be focusing their approach on the risk side, rather than the incentive side. The priority should be on accelerating the pace of growth of sustainable finance, in order to match with the identified investment gaps needed to meet the Paris accord. Coordination and commitment from regulators in all major jurisdictions will be needed to ensure consistent practices, and certain targeted policies or incentives may help reinforce a rapidly growing market. For sustainable finance to be accessible and streamlined across all markets, a coordinated regulatory approach is needed to catalyze innovation to incentivize greater participation from private sector.

Potential areas for further policy exploration include:

- Streamlining and ensuring consistency of definitions across all regions;
- Preserving firms' flexibility to develop internal taxonomies based on an individual risk governance, client footprint, and regional and sectoral drivers;
- Balancing the need to improve data quality, transparency and comparability with the need to foster innovation in a still-developing space;
- Mitigating risks of greenwashing and developing appropriate verification practices;
- Reviewing potential unintended consequences of Basel III to align the new framework with the actual risks of sustainable assets, and the major policy objective of enabling financial institutions to scale up their balance-sheet allocation to sustainable finance projects; and
- Building awareness for all capital market participants, clients and investors to promote the issuance of sustainable products and capacity building.

DEFINING SUSTAINABLE FINANCE

The G20's Sustainable Finance Study Group describes sustainable finance as "financing as well as related institutional and market arrangements that contribute to the achievement of strong, sustainable, balanced and inclusive growth, through supporting directly and indirectly the framework of the UN Sustainable Development Goals¹ (SDGs)" (July 2018 Synthesis Report).

Global financial institutions' definitions of sustainable finance are not identical but tend to focus on several common themes. Firms' definitions are generally aligned with the Study Group's description, with many even explicitly mentioning the Paris Agreement and/or SDGs, and typically emphasize that sustainable finance is provision of capital to investments that help the firm or clients advance positive environmental, social and governance outcomes while abiding by a firm's risk and financial returns criteria. These objectives are sometimes considered as part of firms' corporate social responsibility.

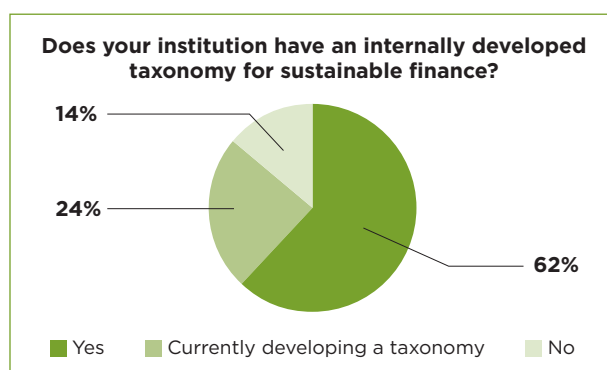
The firms responding to GFMA's Sustainable Finance Survey each offered a definition that includes language on climate change and environmental concerns and support for a transition to a lower-carbon economy. Many offered examples of activities that would be eligible for sustainable financing based on environmental or climate impact:

- Renewable energy and energy efficiency
- Sustainable land use and management
- Green buildings
- Clean water
- Pollution prevention and control
- Mitigating greenhouse gas emissions

¹ These SDGs are grouped into seventeen themes: poverty; hunger; health; education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; inequality; sustainable cities and communities; responsible production and consumption; climate action; life below water; life on land; peace, justice and strong institutions; and partnerships for the goals.

Some firms either already take a more expansive view of sustainable finance to include social and governance issues, or recognize that their characterization will evolve to include goals such as equality, human rights, healthcare, urban development and housing, food and agriculture, clean technology, transportation, education, financial inclusion, diversity and employment.

A taxonomy of activities that can be considered sustainable, and therefore eligible for financing under that label, is important to providing clarity for investors, issuers and borrowers alike, as well as for society as a whole (clients, staff, NGOs, scientific community, etc.). For this reason, policymakers in several jurisdictions, such as the European Union, have considered creating taxonomies that promote consistent understandings and credibility for the market by defining environmentally sustainable activities in their jurisdictions.

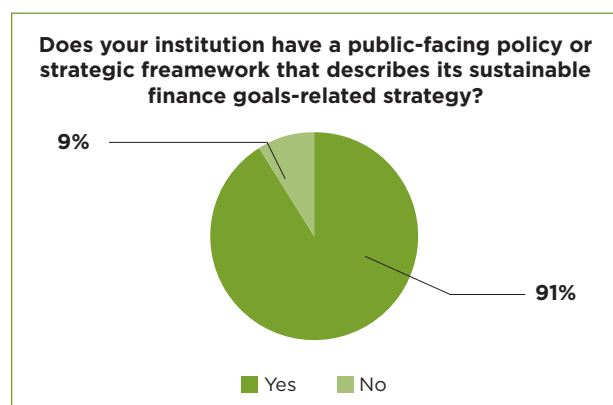


With the lack of a universal taxonomy provided by policymakers, most firms have been proactive in developing their own internal taxonomies to guide their sustainable finance initiatives. 62% have already established taxonomies, while an additional 24% report that they are actively working towards this end.

SUSTAINABLE FINANCE IN STRATEGIC PLANNING, CORPORATE STRUCTURE AND GOVERNANCE

Strategic Planning and Public Targets

Most global financial institutions embrace the critical role they have to play in the transition to a sustainable global economy, and increasingly see that the public expects them to proactively support efforts to mitigate climate change. The UN Environment Programme has estimated that about US \$1.5 trillion of additional investment is needed each year to meet the 2030 objectives of the Paris Agreement.² The capital markets will be crucial in meeting this investment gap, and most financial institutions have engaged by rapidly scaling up their pledges to climate and sustainable finance.



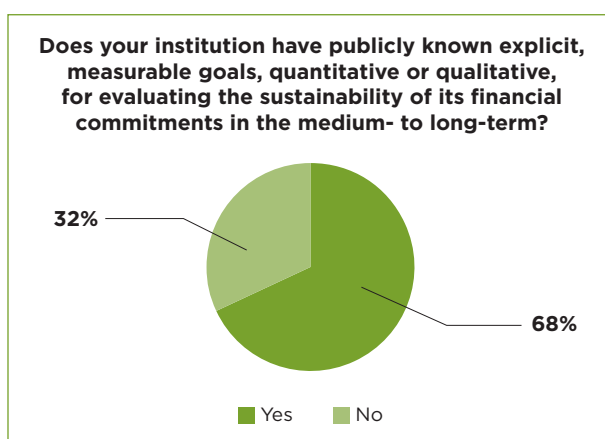
The overwhelming majority (91%) of firms that participated in the GFMA survey have public-facing policies or strategic frameworks describing their sustainable finance strategy available publicly on their websites. Of the firms with policies or frameworks in place, 85% directly reference the Paris Agreement and SDGs as a basis for their commitments. 86% of respondents report that sustainable finance goals referring the Paris Agreement and SDGs are expressly considered within their firms' strategic planning.

Firms indicated that the most important factors guiding their sustainability strategies are market/external client demand and regulatory developments, with over half of respondents identifying these as "extremely important." Internal stakeholder/employee interest, evolving understanding of climate risks, and public discourse were all identified as "very important" by at least half of responding firms.

Respondents noted that the SDGs are informing firmwide approaches to sustainability. They explained how environmental, social and governance (ESG) considerations are integrated into risk management, investment portfolios and broader business strategies, such as the development of new products designed to address specific SDGs.

Firms consider the Paris Agreement and climate change across a number of activities, including:

- Risk management and limiting exposure to carbon-related assets;
- Protecting clients' assets by supporting their efforts to assess and manage their climate-related risks;
- Mobilizing capital towards climate change mitigation and adaptation; and
- Supporting the transition to a low-carbon economy, both as a corporate advisor and through lending capacity; and by reducing the firms' own carbon footprints.



² <https://unfccc.int/news/bridging-climate-ambition-and-finance-gaps>

68% of firms reported that they have explicit public and measurable goals for the sustainability of their financial commitments in the medium- to long-term. They offered up many examples of commitments made to support sustainability. These include, but are not limited to:

- Firms reported numerous commitments to provide or facilitate US\$100+ billion each for social, environmental and clean energy projects, with target dates varying from 2020 to 2030. The total value of such reported commitments totals over US\$1.5 trillion, and several firms noted that they are well ahead of schedule towards meeting these targets.
- Scaling up sustainable investing assets under management for private and institutional clients.
- Commitments to be carbon neutral or to purchase 100% of electricity from renewable sources.

In addition to the substantial commitments made by global financial institutions to support sustainable businesses, many have also decided to actively limit their exposure to carbon-intensive industries. Examples include decisions to either not invest in new projects, or to only finance existing customers but encourage them proactively to transition into less carbon-intensive production methods.

Governance and Responsible Officers

Sustainability is considered at the highest levels of global firms' leadership teams. The boards of directors of most survey respondents have committees with primary oversight of sustainability strategy. These board-level groups present to the

full boards at least periodically on sustainable finance risks and opportunities. Typically, this board-level oversight falls under a corporate social responsibility (or similarly named) committee or a compliance committee. Several firms even have board-level committees fully dedicated to sustainable finance. Risk committees were also often mentioned as playing a role in overseeing climate-related risks.

It is a common practice among global financial institutions to have chief executives, chairmen or other senior officers directly involved in sustainability strategy. At least two firms have ESG or corporate sustainability committees that are chaired by their group CEOs.

86% of firms noted that they have a chief sustainability officer (CSO) or similar role, and most report directly to the CEO or chairman. Some firms noted that the CSO periodically reports to the Board of Directors or sits on firm-wide executive and/or board-level fora. In some firms, the CSO-type role is housed within divisions such as public affairs, corporate relations, corporate social responsibility, engagement or stakeholder relations, but there has been a trend of this responsibility developing also within risk management divisions.

One firm noted that it has over 130 corporate social responsibility "correspondents" who work in every business division, geography and product line to help implement social responsibility and sustainability policies. This firm also stated that within each of its legal entities, a corporate social responsibility manager sits on the executive committee.

PRODUCTS AND SERVICES

Global financial institutions operate myriad business lines serving individual and corporate borrowers, investors and other clients, and sustainable finance objectives are being embedded in nearly all of them as capital is mobilized to meet the objectives of the SDGs.

Global financial institutions work with debt and equity issuers to address several SDG priorities, including healthcare, gender equality, education, conservation and climate change mitigation, and products are labelled as green, social or sustainable accordingly. Most firms work with clients to follow common standards such as the International Capital Markets Association (ICMA) Green or Social Bond Principles³ to label issuance according to international best practice.

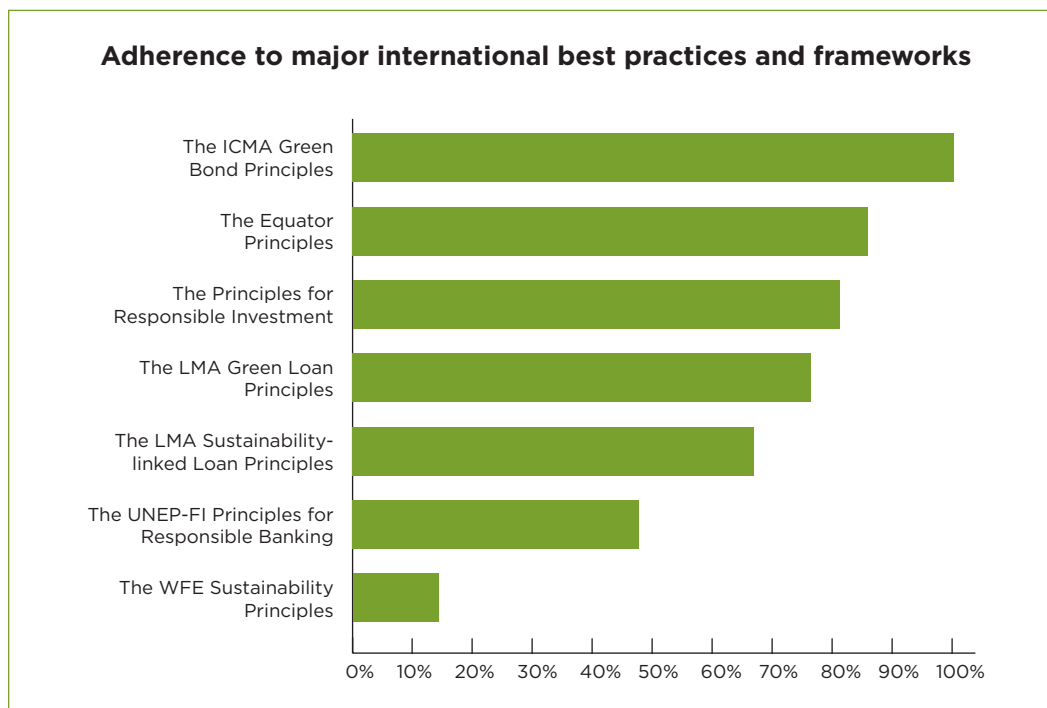
Beyond debt and equity capital markets, sustainability objectives are also considered in many other business lines, such as wealth management, asset management, insurance, mergers and acquisitions, corporate and retail banking, infrastructure finance and others.

Best Practices and Frameworks

Global financial institutions typically align their sustainability practices, including product and service development, to various international best practices or frameworks that have been developed by trade associations and non-governmental organizations. Such industry-developed frameworks can be valuable in ensuring consistency in a market to fill the gap where there may not be consistent global regulatory and supervisory approaches and allow flexibility in updating them as markets mature.

All the firms participating in GFMA's survey leverage the ICMA Green Bond Principles, and over 80% use other well-established frameworks such as the Equator Principles⁴, Principles for Responsible Investment⁵ and Green Loan Principles.⁶

A common characteristic across frameworks is that they allow for a degree of reasonable flexibility in a dynamic market. Innovative products and services are still being developed, and these principles-based frameworks do not impede the growth of sustainable finance by prescribing requirements that could discourage innovation.



³ <https://www.icmagroup.org/green-social-and-sustainability-bonds/>

⁴ https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/sustainable-finance/equator+principles+financial+institutions

⁵ <https://www.unpri.org/>

⁶ https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

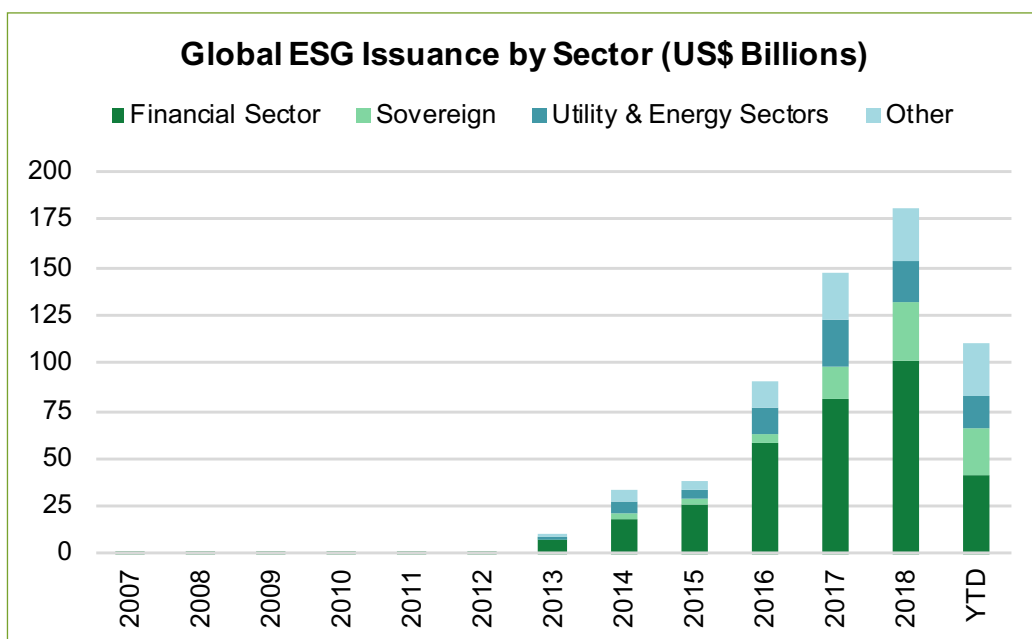
In addition to those mentioned in the survey, firms also noted some other frameworks they follow, such as the UN Global Compact⁷ (for broad sustainability objectives) and the Thun Group of Banks (for human rights).

Sustainable Products and Services Provided

Green bonds are the best-known example of a sustainable finance product, with the first of its kind being issued in 2007 by the European Investment Bank. However, a much wider universe of sustainable finance products has developed. Global institutions provide products and services including, but not limited to: tax equity finance; green, social and sustainability labelled debt instruments underwriting (bond, private placements, hybrids) (private and municipal); green and ESG/sustainability linked loans; construction finance for renewable energy projects; clean-tech advisory; ESO CLO; ESG Deposits; ESG smart-beta equity funds; ESG equity index products; ESG structured products; lines of credit based on ESG index; ESG ETFs; ESG research; sustainability indexed revolving facilities; commodity risk management solutions for renewable energy (public and private); private bank sustainable investment options; and corporate advisory and other general banking services for clients in sustainable sectors.

Firms also provide significant ESG research to their clients that explore risks and opportunities arising from environmental and social challenges and distill this research into thematic products or papers to demonstrate the connection between ESG and value creation.

Some firms have worked to incorporate climate-related risks and considerations into their product pricing models; however, this remains at a very early stage. This has been implemented in a number of ways, including by building ESG risks into the credit evaluation process and lending margins. One firm noted that where relevant, risk management teams will look at carbon pricing and physical climate risk factors such as extreme weather and flooding probabilities and include these in worst-case loss scenarios. As part of implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)⁸, another firm added that it is in the process of strengthening climate-related risk management and product pricing models. So far, given the lack of depth, data has been lacking to demonstrate a link between sustainability and credit risk. However, as the pool of assets develops, study are starting to emerge that will progressively help developing a more quantitative sustainability risk framework.



Source: Dealogic, May 2019

7 <https://www.unglobalcompact.org/>

8 <https://www.fsb-tcfid.org/>

Client Relationships—Awareness Building

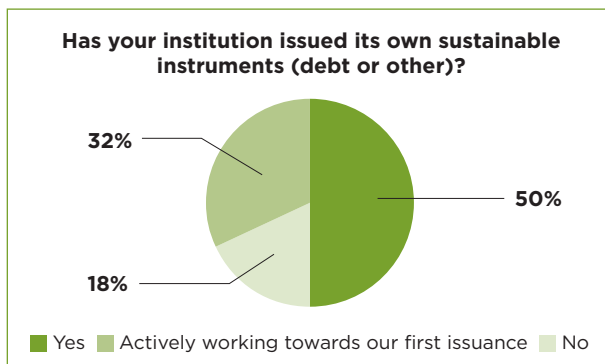
Almost universally, financial institutions indicated that they are actively working to educate clients on climate-related risks and ESG investment opportunities. Firms try to understand their clients' climate impacts and sustainability roadmaps, identifying environmental and social challenges arising from the sectors and locations of their activities. Business relationship managers are trained and use tools to have informed conversation on climate-related issues with their clients.

Client education also takes the form of research seminars and workshops designed to inform them on regulatory policy and market developments. Forums are being used to bring together corporates, investors, shareholders, policymakers, employees and non-profit organizations to discuss key drivers shaping markets and sustainability performance. In addition, sustainability updates and white papers are published routinely to help clients better understand sustainability considerations.

Several firms that responded to the GFMA survey specifically discussed their client relationships with high risk and high carbon industries such as oil, gas and utilities. They report working with these sectors towards emissions reductions and investment in low-carbon technologies. In some cases, institutions impose restrictions on existing relationships or will not establish new relationships unless clients apply best practices for carbon capture or other mitigation strategies to limit negative environmental impacts.

Financial Institutions as Issuers

Half of the global financial institutions surveyed by GFMA report have issued their own green or social bonds to help fund renewable energy and energy efficiency projects or to support sustainable lending activities. Another 18% indicate that there are actively working towards their first issuance. The firms aim to align their issuances with market best practices frameworks such as the ICMA Green Bond Principles.



Proceeds from bonds issued by financial institutions are used to finance firms' own sustainable operations (such as energy efficiency projects), as well as to support outward investment and lending to sustainable sectors and activities as defined by firms' taxonomies. According to Dealogic, the financial sector has accounted for over US\$300 billion in green, sustainable and social bond issuance since 2007, in addition to supporting issuances for their clients.

The bond issuances are typically verified by independent certifications from groups such as DNV GL, Climate Bond Initiative, Carbon Trust and Sustainalytics, as well as from the major auditing firms.

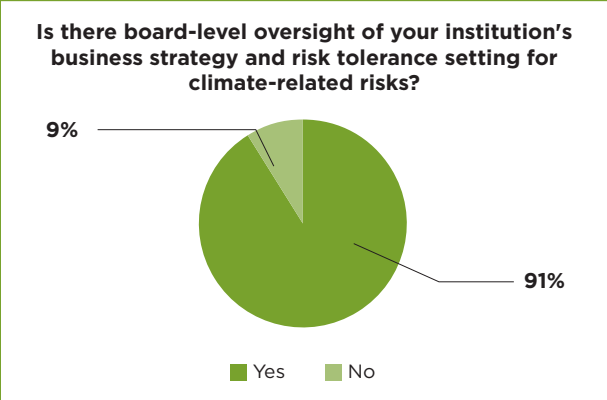
CLIMATE-RELATED RISK MANAGEMENT AND DISCLOSURES

Firms are developing new metrics and methodologies to account for climate-related risks to ensure the soundness of their own businesses and their clients' businesses. They are exploring new ways to leverage data, both for their internal risk management and for public disclosures. Firms aim to help clients address physical risk management by reducing financial exposure to climate extremes, and to navigate transition risks by developing hedging products that lower client exposure to carbon intense assets.

Risk management and disclosures have yet developed as fully for other aspects of sustainable finance, such as social and governance concerns, as they remain more difficult to quantify.

Overall Risk Management Strategy

It has become standard that global financial institutions' boards of directors exercise oversight of their business strategy and tolerance for climate-related risks. Most firms have dedicated board-level sustainability or corporate responsibility committees that help formulate sustainability objectives, and these groups work with risk committees or executive committees to reach decisions on climate-related risk management. Multiple firms noted that their boards have identified climate and sustainability as areas of highest priority, and related physical and transition risks are explicitly mentioned within risk appetite frameworks.



The vast majority of firms already actively consider climate-related risks in their overall risk management framework, while every remaining institution indicated they are actively planning to do so. There are various ways to assess climate-related risks, with nearly three quarters of firms conducting scenario analyses and about half utilizing risk-modelling. Some firms have begun onboarding climate and environmental risks in their internal stress testing platform as well. However, there are concerns that climate-related stress tests at this stage cannot yet fully simulate the complete impact of climate risk on balance sheets with the same granularity as standard credit or market risks.

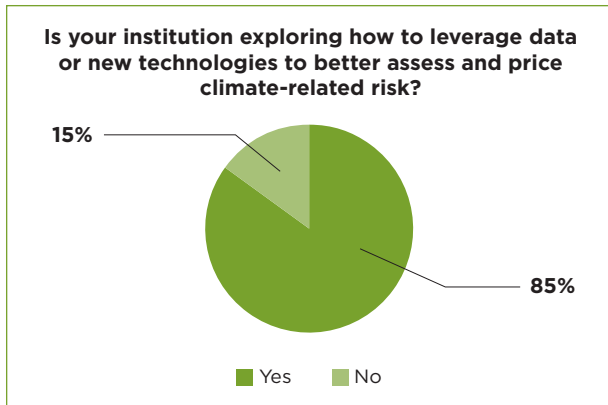
Firms indicated that the lack of reliable or comparable data is the most significant obstacle to better assessing climate-related risks, with all firms calling this either "extremely" important or "very" important. Challenges in updating internal risk methodologies are generally considered "moderately" to "very" important, while inconsistency among rating agencies is seen by firms as "slightly" to "moderately" important.

Risk Metrics and Use of Data and New Technologies

Just over half of firms taking the survey report that they have developed specific risk metrics, targets or exposure limits based on climate-related factors. Firms leverage the work of in-house experts as well as academic research, think tanks, data providers and rating agencies to develop better ways to measure for climate-related risks, and integrate these methodologies into their businesses to mitigate their exposure to physical and transition risks.

The most common example provided was an exposure limit or outright restriction on new investment in carbon-intensive sectors such as coal mining. Some firms are using more sophisticated carbon intensity metrics to protect their own assets as well as clients', including:

- Carbon-related assets;
- Climate-related sustainable investments;
- Greenhouse gas footprint;
- Weighted carbon intensity;
- Total deal value in equity or debt capital market services related to climate change mitigation and adaption; and
- Number of climate-related shareholder resolutions voted upon.

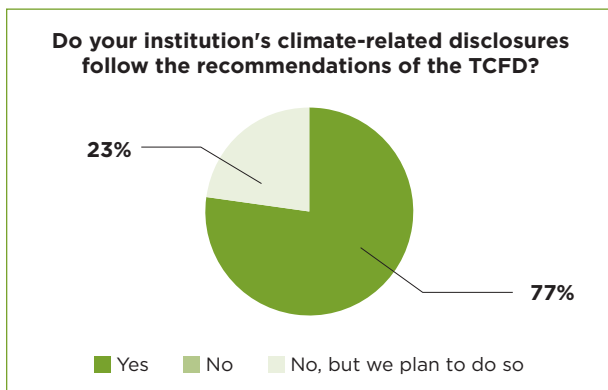


A commonly referenced issue about sustainable finance is the availability and utility of data to better assess and price climate-related risk. Most firms are exploring how to use data or new technologies to this end. Examples provided include:

- Leveraging artificial intelligence in the work of risk departments
- Using data to improve transparency of climate impacts
- Assessing flooding probabilities
- Tracking energy use, water use and waste
- Mapping and climate projections for real estate
- Using data for climate scenario analysis and applying these to corporate lending portfolios
- Piloting for stress testing exercises
- Improving data quality in TCFD disclosures

Climate-Related Disclosures

The majority of financial institutions responding to the GFMA survey already follow the recommendations of the Task Force on Climate-Related Financial Disclosures, while all remaining firms indicate that they plan to do so.



However, despite this seemingly universal support of the goals of the TCFD framework, the firms were evenly split on whether the framework should be made mandatory. The TCFD was designed to be voluntary and making it mandatory may give rise to challenges in implementing consistent understandings of materiality. Importantly, while financial institutions may be in a position to disclose their direct sustainable footprint, as any corporate, they will only be able to disclose the sustainable footprint of their lending portfolio if and when their clients will provide adequate, reliable and consistent disclosure.

Making the framework binding might also hinder further model development. A “comply or explain” approach, by which a firm would either publish a disclosure using the TCFD framework or give a reasonable explanation for why climate-related risks and opportunities are not material to its business, could be the best solution to driving adoption of the TCFD framework.

In addition to the TCFD, global financial institutions comply with many other frameworks for disclosures. In addition to some national or regional requirements, the most commonly referenced voluntary standards include:

- The Sustainability Accounting Standards Board
- The CDP (formerly the Carbon Disclosure Project)
- The Global Reporting Initiative
- The International Integrated Reporting Council
- The GHG Protocol Corporate Accounting and Reporting Standard
- The World Federation of Exchange’s ESG Guidance and Metrics
- UNEP FI

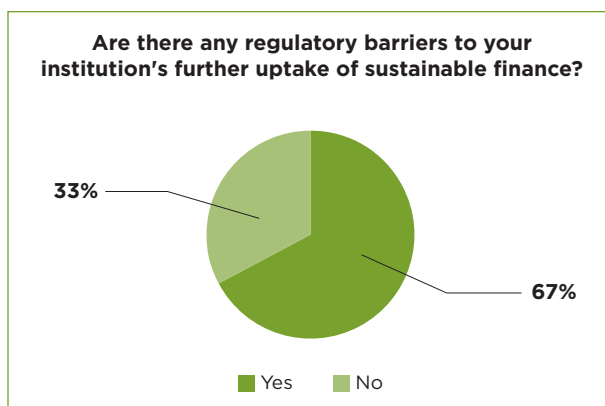
THE ROLE OF POLICYMAKERS

The industry welcomes the role policymakers and regulators should play to scale up the sustainable finance market. Coordination and commitment by all major jurisdictions are needed to ensure consistent practices and clear policy direction, and certain targeted mandates or incentives could help reinforce a rapidly growing market. Regulatory and policy matters should not be limited to climate change because the scope of sustainability is much broader. Financial institutions will continue to engage with the public sector to support the healthy growth and development of sustainable finance.

Unfortunately, most financial institutions do not feel that there has been sufficient coordination among regulators to effectively promote sustainable finance globally. While there have been promising initiatives such as the TCFD or, more recently, the Network for Greening the Financial System (NGFS), not all key regulators have actively participated in such fora. At a regional level, policymakers in the European Union are generally seen to be much better coordinated than their counterparts in North America or Asia.

Policymakers should work to make regional approaches more consistent without being overly narrow or constraining. A better-aligned set of regulatory requirements would help institutions to focus their business models to support the scale and pace of change required to meet sustainability goals. While each jurisdiction has its own policy issues and priorities, individual jurisdictional policies could impact how firms operate globally, so flexibility should be ensured. Dialogue between authorities across borders is critically important to avoid market fragmentation.

In particular, it should be noted that a large part of the US\$1.5 trillion in investments needed to meet the Paris Agreement is to be invested in emerging markets, while most of this funding is likely to be provided by developed world financial institutions. It should be clear that mandatory requirements imposed in one region may impede the capacity of the financial industry to provide much needed funding in other parts of the world.



Regulatory Barriers to Sustainable Finance

Many firms responding to the GFMA survey feel there are regulatory barriers to their further uptake of sustainable finance, and their explanations can be divided neatly into two categories: policies that hinder sustainable finance activities and the lack of policies or coordination to support sustainable finance. Any measure that policymakers consider in both areas should involve a transparent public consultation process with the private sector to ensure its efficiency.

Policies that Hinder Sustainable Finance Activities

There are existing policies in place that disincentivize the scaling up of sustainable finance activities. Some sustainable finance asset classes, such as long-term infrastructure projects with extended maturities, attract relatively punitive capital treatment. Capital requirements that refer to a time horizon longer than one year or the lack of recognition of physical collateral, as well as other regulatory frameworks, may make it challenging for institutions to support some sustainable finance transactions. Such treatment marks a misalignment between policymakers' sustainability and supervisory objectives. Internal credit models which define capital absorption for different products could also be updated to account for the perceived lower risk profile of sustainable lending.

The International Organization of Securities Commissions' 'Objectives and Principles of Securities Regulation'⁹ was referenced by one firm as an example of a standard that makes it more challenging to have early development of ESG-linked indices and new products because of data quality and participation levels creating a push/pull of policy drivers.

⁹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf>

There are also concerns that jurisdictions might go too far with new sustainable finance-related regulations, crafting rules that are too complex or prescriptive which would have perverse effects on the market:

- **Climate-related stress tests** cannot fully simulate the complete impact of climate risk on balance sheets with the same granularity as standard credit or market stresses.
- **Brown penalizing factors** could lead to large scale divestments, including in areas where alternative technologies have not yet been developed, which may jeopardize the orderly transition to a low-carbon economy.
- **Overly-restrictive taxonomies** that are too limiting in what is considered “green” or too aggressive in labeling assets or activities as “brown” may exclude scalable dimensions of sustainable finance that could aid companies’ transition efforts.

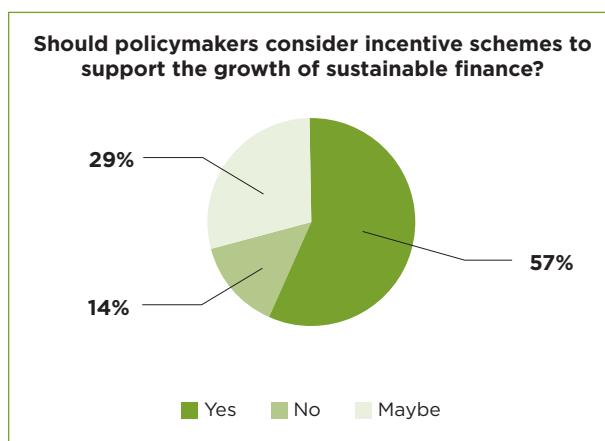
Sustainable finance is still a nascent market, and mandates at this stage might have unintended effects, become obsolete or inefficient, or limit innovation and the creation of new sustainable finance products. Up to now, the sustainable finance market has seen great growth thanks to market-led initiatives, but it is possible prescriptive policy measures could stifle this trend.

Lack of Policies or Coordination to Support Sustainable Finance

For sustainable finance to be accessible and streamlined across all markets, coordinated approach and commitment of all major jurisdictions are needed to catalyze innovation to incentivize greater participation from private sector. There is some appetite from the industry for limited regulatory guidance on common definitions, frameworks and taxonomies that could prevent greenwashing (misleading claims about positive environmental impacts) and to provide clarity to investors. Most firms feel there is a need for a common “language,” and any taxonomy should consider the many economic activities that could be involved in a transition to long-term sustainability.

Disclosure and risk management could potentially be improved with better climate-related data and a public database accessible to the institutions and

investors. Harmonization of disclosure frameworks would also be welcome (see previous section for additional commentary on disclosure frameworks).



Incentives

While many financial institutions are wary of regulatory mandates for the reasons noted above, they are mostly in favor of policy incentives to support sustainable finance. Respondents suggested a broad range of possible incentives:

- **Tax incentives**, both for the sustainable activities themselves (such as renewable energy companies) and for investors (capital gains tax relief);
- **Subsidies or grant schemes** for sustainability-oriented projects and issuance of sustainable debt and equity;
- **Green securitization** could be promoted to bring in more institutional investment, especially given that many investments needed are too small to have access to the green bond market. Therefore, pooling of smaller projects (SME energy efficiency improvement loans, green mortgages, investments in smaller countries with less developed bond markets, etc.) would be essential to channel funding;
- **Pricing of negative externalities** could stimulate investment in clean technologies by making them more competitive and serve as a policy signal to market participants and investors;
- **Guarantee funds** for sustainable infrastructure projects, or more generally diversification of credit enhancements provided by development banks;

- **Standard certifications** for energy efficiency or similar projects that would reduce the need for firms to conduct separate sustainability investigations. In this field, the role of rating agencies should be explored, notably given the convergence between financial and extra financial rating;
- **Expedited approvals of issuances** for sustainable products from regulators in jurisdictions where regulators must approve offerings of new bonds or other products; and
- **Capital relief/green supporting factor** for sustainable finance projects.

Respondents did caution however against rules that would create perverse incentives for firms' risk management and business selection. Further studies should be conducted to demonstrate the correlation between green/sustainable factors and credit risk.

Financial institutions support the regulatory focus on sustainable finance to help build capacity. However, change cannot be delivered by financial sector alone. Firms are trying to build awareness among clients, as their support is necessary in the transition to a sustainable global economy. Crucial to this future state is a clear and consistent industrial strategy and regulated instruments across a range of 'real-economy' sectors.

CONCLUSION

The survey findings raise several potential areas for further policy exploration, including:

- Streamlining and ensuring consistency of definitions across all regions;
- Preserving firms' flexibility to develop internal taxonomies based on an individual risk governance, client footprint, and regional and sectoral drivers;
- Balancing the need to improve data quality, transparency and comparability with the need to foster innovation in a still-developing space;
- Mitigating risks of greenwashing and developing appropriate verification practices;
- Reviewing potential unintended consequences of Basel III to align the new framework with the actual risks of sustainable assets, and the major policy objective of enabling financial institutions to scale up their balance-sheet allocation to sustainable finance projects; and
- Building awareness for all capital market participants, clients and investors to promote the issuance of sustainable products and capacity building.

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