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130 Banks Commit to UN Principles for Responsible Banking

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Launched ahead of the UN Climate Action Summit in New York, the UN Principles for Responsible Banking provides a global framework for a sustainable banking system. This article explores the content of the Principles, as well as the key steps, outlined by the UN Environment Programme Finance Initiative, that signatory banks should implement to demonstrate compliance.

The United Nations ("UN") and a group of 130 banks from 49 countries launched the UN Principles for Responsible Banking ("PRB") to provide an international framework for a sustainable banking system, and allow signatories to demonstrate their commitment to achieving the goals expressed in the UN Sustainable Development Goals ("SDGs") and the Paris Climate Agreement.

This article explores the content of the PRB, as well as the key steps, outlined by the UN Environment Programme Finance Initiative ("UNEP FI"), that signatory banks should implement to demonstrate compliance.

THE SIX PRINCIPLES

Signatories to the PRB commit to:

- Align their business strategy with the SDGs and the Paris Climate Agreement.
- Continuously increase their positive impacts while reducing their negative impacts on, and managing the risks to, people and the environment resulting from their activities, products, and services. They will set and publish targets for the areas in which they can have the most significant impacts.
- Work responsibly with their clients and customers to encourage sustainable practices.
- Proactively and responsibly consult, engage, and partner with relevant stakeholders to achieve society's goals.
- Implement their commitment to the PRB through effective governance

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and a culture of responsible banking.

- Periodically review their individual and collective implementation of the PRB and be transparent about, and accountable for, their positive and negative impacts on, and their contribution to, society's goals.

A core group of 30 founding banks alongside UNEP FI developed the PRB, which may be seen as the banking industry's counterpart to the UN Principles for Responsible Investment ("PRI"), which apply to asset managers. A key difference between the two initiatives is that the PRB requires signatories to align their business strategy with the SDGs and the Paris Climate Agreement, while the PRI focuses on signatories' actions in relation to environmental, social, and governance ("ESG") issues.

KEY STEPS DOCUMENT

The PRB requires signatories to take three key steps for effective implementation. These steps are set out in an additional document produced by UNEP FI, Key Steps to be Implemented by Signatories ("Key Steps Document"),[1] and include the following:

Impact Analysis

Banks must conduct a review of their activities to identify their most significant potential positive and negative impacts on the societies, economies, and environments in which they operate. This analysis should take into account the bank's scale in specific geographies, industries, and technologies; the relevance of certain challenges and priorities in the countries in which the bank operates; and the size of the economic, social, and environmental impacts identified. Based on this analysis, the bank should identify opportunities to increase positive impacts and decrease negative impacts.

Target Setting and Implementation

Banks must establish and make publicly available a minimum of two ambitious targets which relate to the positive and negative impacts identified in the Impact Analysis. These targets should derive from the bank's alignment with the SDGs and the Paris Climate Agreement, and their implementation is to be continuously monitored within the bank, through milestones and other oversight methods, to ensure that the bank is on track to meet them.

Accountability

Banks must demonstrate their progress on implementing their targets and be transparent about their impacts, contributions, and adherence to the PRB.

[1] https://www.unepfi.org/wordpress/wp-content/uploads/2019/07/Key-Steps-to-be-Implemented-by-Signatories.pdf.

(Banks may use their existing public reporting to demonstrate such progress.) Additionally, banks must examine their efforts to implement the steps outlined in the Key Steps Document by completing the UNEP FI's Reporting and Self-Assessment Template, alongside a limited assurance of that self-assessment by a third-party assurer.

Banks are expected to publish their first reporting and self-assessment on the PRB within 18 months of becoming a signatory, and annually thereafter in line with their annual reporting cycle. Since the requirements constitute a significant change from current practice, the UNEP FI is allowing banks up to four years from the date of signing up for full implementation of the steps outlined in the Key Steps Document, despite the fact that reporting must begin much earlier.

FAQs AND GUIDANCE

UNEP FI has produced a set of FAQs as well as a guidance document on how banks can work towards compliance with the PRB. Among other issues, the FAQs state that regulators and policymakers may use the PRB as an assessment tool to identify which banks are best positioned to address emerging risks and challenges, as well as identifying those that are contributing to national and international policies and goals. If regulators and policymakers take up this opportunity, PRB compliance may be a key signifier in terms of evidencing banks' compliance with present and future national and international requirements.

The FAQs also note that any bank can become a signatory to the PRB as long as they are a member of UNEP FI. Non-bank financial institutions, such as banking associations, investment companies, insurance companies, and civil society organizations, cannot become signatories, but can instead be "Endorsers" of the PRB.

CONCLUSION

The eventual impact of the PRB remains to be seen, but the implementation of a sustainability framework for banks that applies to the whole institution, as opposed to other frameworks that only target specific business areas (such as the PRI or the Equator Principles), represents a further acknowledgment of the increasing importance of sustainability in the banking sector. The PRB's requirement on reporting will also provide a useful tool to compare the sustainability credentials of different institutions in a way that is not possible today.

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