
**Sustainable finance — Guidance
on the application of sustainability
principles for organizations in the
financial sector**

*Finance durable — Lignes directrices pour l'application des principes
de durabilité aux organisations dans le domaine financier*

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Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

Attention is drawn to the possibility that some of the elements of this document may be the subject of patent rights. ISO shall not be held responsible for identifying any or all such patent rights. Details of any patent rights identified during the development of the document will be in the Introduction and/or on the ISO list of patent declarations received (see www.iso.org/patents).

Any trade name used in this document is information given for the convenience of users and does not constitute an endorsement.

For an explanation of the voluntary nature of standards, the meaning of ISO specific terms and expressions related to conformity assessment, as well as information about ISO's adherence to the World Trade Organization (WTO) principles in the Technical Barriers to Trade (TBT), see www.iso.org/iso/foreword.html.

This document was prepared by Technical Committee ISO/TC 322, *Sustainable finance*.

Any feedback or questions on this document should be directed to the user's national standards body. A complete listing of these bodies can be found at www.iso.org/members.html.

Introduction

Addressing global environmental and social challenges, and supporting sustainability, including tackling climate change, cannot be reached without the support of the financial sector. In understanding and developing an alignment of interest in tackling these challenges, organizations can contribute toward positive environmental and social outcomes, improve governance, address externalities from owned and financed assets, mitigate risk, realize opportunity and drive value. Transparent assessment, management and reporting across all dimensions of sustainability can offer confidence and reassurance to key stakeholders.

This document is designed to support organizations to integrate key principles of sustainability into operations and activities, to help achieve these mutually beneficial outcomes.

The term “sustainable finance” has not been defined in this document, enabling organizations to develop their own approach to the integration of sustainability into operations and activities. However, this document does provide guidance on how key sustainability principles, including those related to environmental, social and governance factors, can be integrated at the organizational level into operations and core business strategy. It can support in mitigating risk, realizing opportunity and driving value. It is designed to be complementary to, and can be implemented alongside, other sustainability initiatives and requirements. This document is based on application of principles and processes within an overarching framework. Components of the framework will already exist, at least in part, within the organization. However, application of the principles and guidance provided in this document will support in adapting or enhancing these components, so that integration of sustainability is more effective, efficient and consistent. This document is designed to demonstrate organizational alignment with wider environmental and social goals such as the appropriate elements of the United Nations Framework Convention on Climate Change's Paris Agreement^[33] and the United Nations Sustainable Development Goals^[34]. Some elements of this document can also support organizational alignment with the Task Force for Climate-related Finance Disclosures^[31], and other international initiatives and conventions as appropriate.

Although this document is designed primarily for application by organizations, the principles and guidance can also be applied at the product and service level across a range of markets and instruments including within debt, equity, risk transfer, blended products and other financial services.

Implementation of the principles and guidance will require interfacing with a number of organizational departments, roles and stakeholders. This document can be used by personnel within an organization and those supporting and advising an organization. Typically, these roles would be associated with managing and promotion of organizational sustainability performance. However, successful integration of sustainability is supported by engagement with many internal and external stakeholders, including, but not limited to, those responsible for:

- fulfilling fiduciary responsibilities;
- setting and monitoring progress against strategic goals;
- understanding and monitoring risk and threats;
- business development including developing new products, services and partnerships;
- ensuring compliance;
- approving investments and capital allocation;
- monitoring investment portfolios;
- training and capacity building;
- mapping and analysing sustainability performance;
- engagement with, and reporting to, stakeholders.

The document has been designed so that an organization can apply the principles and guidance to the extent applicable, given the organization's scale, activities, geographical presence and ambition. Organizations at different stages of integration of sustainability can apply all or parts of the principles and guidance, depending on existing components and degree of operational capability and capacity.

The document is designed around promoting transparency, so that the organization's stakeholders can consider progress and performance.

Assurance of reported operational performance, whether internal or external, can provide additional trust and confidence to stakeholders and is strongly encouraged.

Organizations using this document will be able to demonstrate alignment with sustainability principles, guidance and practices, and internal governance provided in this document through their actions, including stakeholder engagement, reporting and disclosures.

Continual improvement is a core aspect of the principles and guidance. The progression towards greater sustainability requires ongoing improvement of operational performance and progress to related sustainable outcomes. Therefore, an organization should ensure it is using relevant good practice, leading methods and approaches as appropriate.

Key documents and outputs from implementation of the principles and guidance include:

- a sustainability statement or sustainability policy;
- development of strategic goals on material sustainability issues;
- development of suitable metrics and associated key performance indicators;
- executive and governing body accountability for sustainability matters;
- executive compensation aligned with sustainability performance and outcomes;
- a systematic review of existing organizational processes and resources;
- a stakeholder engagement plan;
- a list or register of material sustainability impacts;
- benchmarking, peer review and gap analysis;
- a transition plan;
- a strategic implementation plan;
- scenario analysis, risk impact assessment and mitigation plan;
- public reporting showing material sustainability impacts and relevant progress, performance and outcomes;
- external assurance.

Additional resources are available on the website of ISO/TC 322 to support users in the application of the principles and practices provided in this document, see: <https://committee.iso.org/home/tc322>.

Sustainable finance — Guidance on the application of sustainability principles for organizations in the financial sector

1 Scope

This document gives guidance to organizations on the application of overarching sustainability principles, practices and terminology for financing activities.

It addresses what is material from the perspective of the organization and of its stakeholders.

This document is applicable to all organizations active in the financial sector, including, but not limited to, direct lenders and investors, asset managers and service providers.

Beyond financial institutions and intermediaries, this document can be used by other parties in the financial sector such as providers or recipients of sustainable finance, governmental organizations, public and private sector institutions, business entities, industry associations, financial market regulators, and supervisory and control bodies.

2 Normative references

There are no normative references in this document.

3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

ISO and IEC maintain terminology databases for use in standardization at the following addresses:

- ISO Online browsing platform: available at <https://www.iso.org/obp>
- IEC Electropedia: available at <https://www.electropedia.org/>

3.1

sustainability

state of the global system, including environmental, social and economic aspects, in which the needs of the present are met without compromising the ability of future generations to meet their own needs

[SOURCE: ISO Guide 82:2019, 3.1, modified — Notes to entry deleted.]

3.2

material sustainability impact

impact (3.7) identified either by the *organization* (3.3) or by the organization's *stakeholders* (3.15) as material, either to the financial performance of that organization, or to the organization's impact on *sustainability* (3.1)

3.3

organization

person or group of people that has its own functions with *responsibilities* (3.10), authorities and relationships to achieve its *objectives* (3.4)

[SOURCE: ISO 37301:2021, 3.1, modified — Notes to entry deleted.]

**3.4
objective**

result to be achieved

[SOURCE: ISO 37301:2021, 3.6, modified — Notes to entry deleted.]

**3.5
strategic plan**

document identifying goals and *objectives* (3.4) to be pursued by an *organization* (3.3) over a long-term period in support of its mission and being consistent with its values

[SOURCE: ISO 24516-3:2017, 3.25]

**3.6
transformational change**

activity resulting from a shift in organizational expectation, awareness or purpose, which results in a profoundly different organizational culture, governance, structure, performance and outcomes

**3.7
impact**

past, current or future change, outcome, effect or influence, whether adverse or beneficial

**3.8
governance of organizations**

human-based system by which an *organization* (3.3) is directed, overseen and held accountable for achieving its defined purpose

[SOURCE: ISO 37000:2021, 3.1.1]

**3.9
fiduciary responsibility**

requirement of fiduciaries to act in the best long-term interests of their clients and beneficiaries

Note 1 to entry: Fundamental fiduciary responsibilities include duty of loyalty and duty of care, to consider all value and risk drivers including environmental, social and governance factors.

**3.10
responsibility**

obligation to act and take decisions to achieve intended outcomes

Note 1 to entry: See also *accountability* (3.13).

[SOURCE: ISO/IEC 38500:2015, 2.22, modified — “intended” replaced “required” in the definition. Note 1 to entry added.]

**3.11
top management**

person or group of people who directs and controls an *organization* (3.3) at the highest level

Note 1 to entry: Top management has the power to delegate authority and provide resources within the organization.

[SOURCE: ISO 37301:2021, 3.3, modified — Notes 2 and 3 to entry deleted.]

**3.12
governing body**

person or group of people who have ultimate *accountability* (3.13) for the whole *organization* (3.3)

Note 1 to entry: Every organizational entity has one governing body, whether or not it is explicitly established. When the organization is not an organizational entity, the term governing group is applicable where “governing body” is used throughout this document.

Note 2 to entry: A governing body can be explicitly established in a number of formats including, but not limited to, a board of directors, supervisory board, sole director, joint and several directors, or trustees.

Note 3 to entry: ISO management system standards make reference to the term “*top management*” (3.11) to describe a role that, depending on the standard and organizational context, reports to, and is held accountable by, the governing body.

[SOURCE: ISO 37000:2021, 3.3.4]

3.13

accountability

obligation to another for the fulfilment of a *responsibility* (3.10)

Note 1 to entry: The obligation includes the duty to inform and to explain the manner in which the responsibility was fulfilled.

Note 2 to entry: The non-fulfilment of a responsibility has consequences that can be enforced on the accountable party.

[SOURCE: ISO 37000:2021, 3.2.2]

3.14

stakeholder engagement

activity undertaken to create opportunities for dialogue between an *organization* (3.3) and one or more of its *stakeholders* (3.15), with the aim of providing an informed basis for the organization’s decisions

[SOURCE: ISO 26000:2010, 2.21]

3.15

stakeholder

person, interested party or *organization* (3.3) that can affect, be affected by, or perceive itself to be affected by a decision or activity

[SOURCE: ISO 44001:2017, 3.2, modified — “interested party” moved from the term into the definition.]

3.16

continual improvement

recurring activity to enhance performance

[SOURCE: ISO 37301:2021, 3.12]

3.17

asset

tangible or intangible item or thing with an actual or potential financial or non-financial value to an *organization* (3.3)

[SOURCE: ISO 55000:2014, 3.2.1, modified — “tangible or intangible item or thing with an actual or potential financial or non-financial” replaced “item, thing or entity that has potential or actual” in the definition. Notes to entry deleted.]

3.18

liability

present obligation of the *organization* (3.3) arising from past events, the settlement of which is expected to result in an out-flow of resources from the organization

[SOURCE: ISO/TS 55010:2019, 3.18]

3.19

risk

effect of uncertainty on *objectives* (3.4)

Note 1 to entry: An effect is a deviation from the expected. It can be positive, negative or both, and can address, create or result in opportunities and threats.

Note 2 to entry: Objectives can have different aspects and categories, and can be applied at different levels.

Note 3 to entry: Risk is usually expressed in terms of risk sources, potential events, their consequences and their likelihood.

Note 4 to entry: Risk can be considered as the likelihood or probability that actual results or outcomes will differ from expected results or return, representing the effect of uncertainty on investment or lending or insurance objectives. This effect can be positive or negative, comprising opportunities and threats over varying time horizons.

[SOURCE: ISO 31000:2018, 3.1, modified — Note 4 to entry added.]

3.20
risk appetite

amount and type of *risk* (3.19) that an *organization* (3.3) is willing to pursue or retain

[SOURCE: ISO Guide 73:2009, 3.7.1.2]

3.21
risk control

actions implementing risk-management decisions to mitigate, limit or reduce frequency or severity of *risks* (3.19) and negative consequences

Note 1 to entry: Risk control can involve monitoring, re-evaluation and compliance with decisions.

[SOURCE: ISO 13824:2020, 3.13, modified — “to mitigate, limit or reduce frequency or severity of risks and negative consequences” added to the definition.]

3.22
risk mitigant

measures implemented by which *risks* (3.19) are reduced to, or maintained within, specified levels

3.23
systemic risk

risk (3.19) leading to potential collapse or failure of an entire market, global economy, or environmental and socio-political systems with the transmission of shocks leading to broader contagion and further systemic impacts

3.24
scenario

plausible description of how the future can develop based on a coherent and internally consistent set of assumptions about key driving forces and relationships

Note 1 to entry: Key driving forces can be, for example, demographics, interest rates, degrees of warming, rate of technological change or prices.

[SOURCE: IPCC, 2018, Annex I^[29], modified — The examples of key driving forces moved to Note 1 to entry and expanded.]

3.25
scenario analysis

process for identifying and assessing the potential implications of a range of plausible future states on operations, activities, products and services under various conditions

3.26
biodiversity

variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part

Note 1 to entry: This variability includes diversity within species, between species and of ecosystems.

[SOURCE: United Nations Convention on Biological Diversity, 1992, Article 2^[32], modified — “biodiversity” replaced “biological diversity” as the term.]

3.27**circular economy**

economy that is restorative and regenerative by design, and which aims to keep products, components and materials at their highest utility and value at all times, distinguishing between technical and biological cycles

[SOURCE: ISO 20400:2017, 3.1]

3.28**resilience**

ability to absorb and adapt in a changing environment

[SOURCE: ISO 22300:2021, 3.1.206, modified — Note 1 to entry deleted.]

3.29**transition plan**

actionable proposal, embedded in organizational strategy, that outlines how an entity will shift from unsustainable economic activities and operational processes and systems toward sustainable activities and operational processes and systems

Note 1 to entry: The transition plan can include short-, medium- and long-term targets to achieve net-zero carbon emissions by 2050 or sooner.

3.30**key performance indicator****KPI**

quantifiable level of achieving an *objective* (3.4)

Note 1 to entry: The KPIs are derived directly from, or through an aggregation function of, physical measurements, data and/or other KPIs.

[SOURCE: ISO 22400-1:2014, 2.1.5, modified — “critical” deleted before “objective”.]

3.31**metric**

defined measurement method and measurement scale that can demonstrate contribution to a *key performance indicator* (3.30)

[SOURCE: ISO/TR 37150:2014, 3.5, modified — “that can demonstrate contribution to a key performance indicator” added to the definition.]

3.32**transparency**

open, comprehensive and understandable presentation of information

[SOURCE: ISO 14040:2006, 3.7]

3.33**baseline**

agreed reference value or set of values which can be derived from past experience, often used for comparing with ongoing performance data, values or outcomes

[SOURCE: ISO 37500:2014, 3.1, modified — “or” replaced “and/or” before “outcomes”.]

3.34**benchmarking**

comparing attributes, processes or performance between *organizations* (3.3)

[SOURCE: ISO 30400:2016, 3.17]

3.35

asset management

coordinated activity of an *organization* (3.3) to realize value from *assets* (3.17)

[SOURCE: ISO 55000:2014, 3.3.1, modified — Notes to entry deleted.]

3.36

asset management plan

documented information that specifies the activities, resources and timescales required for an individual *asset* (3.17), or a grouping of assets, to achieve the *organization's* (3.3) asset management objectives

Note 1 to entry: This includes the organization's sustainable finance objectives within *asset management* (3.35).

[SOURCE: ISO 55000:2014, 3.3.3, modified — Notes to entry deleted and a new Note 1 to entry added.]

3.37

business-as-usual scenario

ongoing and unchanging state of affairs

3.38

modern slavery

all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered their self voluntarily

[SOURCE: ILO, Forced Labour Convention, 1930 (No. 29)^[28], modified — “modern slavery” replaced “forced or compulsory labour” as the term. “their self” replaced “himself” in the definition.]

3.39

climate change adaptation

process of adjustment to actual or expected climate and its effects

Note 1 to entry: In human systems, adaptation seeks to moderate or avoid harm or exploit beneficial opportunities.

Note 2 to entry: In some natural systems, human intervention can facilitate adjustment to expected climate and its effects.

[SOURCE: ISO 14090:2019, 3.1, modified — “climate change adaptation” replaced the preferred term “adaptation to climate change”.]

3.40

whistleblower

person who reports suspected or actual wrongdoing, and has reasonable belief that the information is true at the time of reporting

[SOURCE: ISO 37002:2021, 3.9, modified — Notes to entry deleted.]

3.41

value chain

entire sequence of activities or parties that create or receive value through the provision of a product or service

[SOURCE: ISO 14050:2020, 3.5.28, modified — “or service” added.]

4 Sustainable finance principles

4.1 General

This clause describes the key sustainable finance principles (hereinafter referred to as “Principles”) which form the core elements of this document. The Principles outlined in 4.2 to 4.8 are aimed at

supporting organizations in aligning their business strategy and operations with sustainability goals and objectives that are material to the organization and its stakeholders.

The Principles are overarching yet subject to ongoing interaction with each other, as illustrated in [Figure 1](#). The concept of material sustainability impact should be considered throughout.

For each Principle, additional guidance on operational implementation, including on conducting a materiality assessment, is provided in [Clause 5](#).

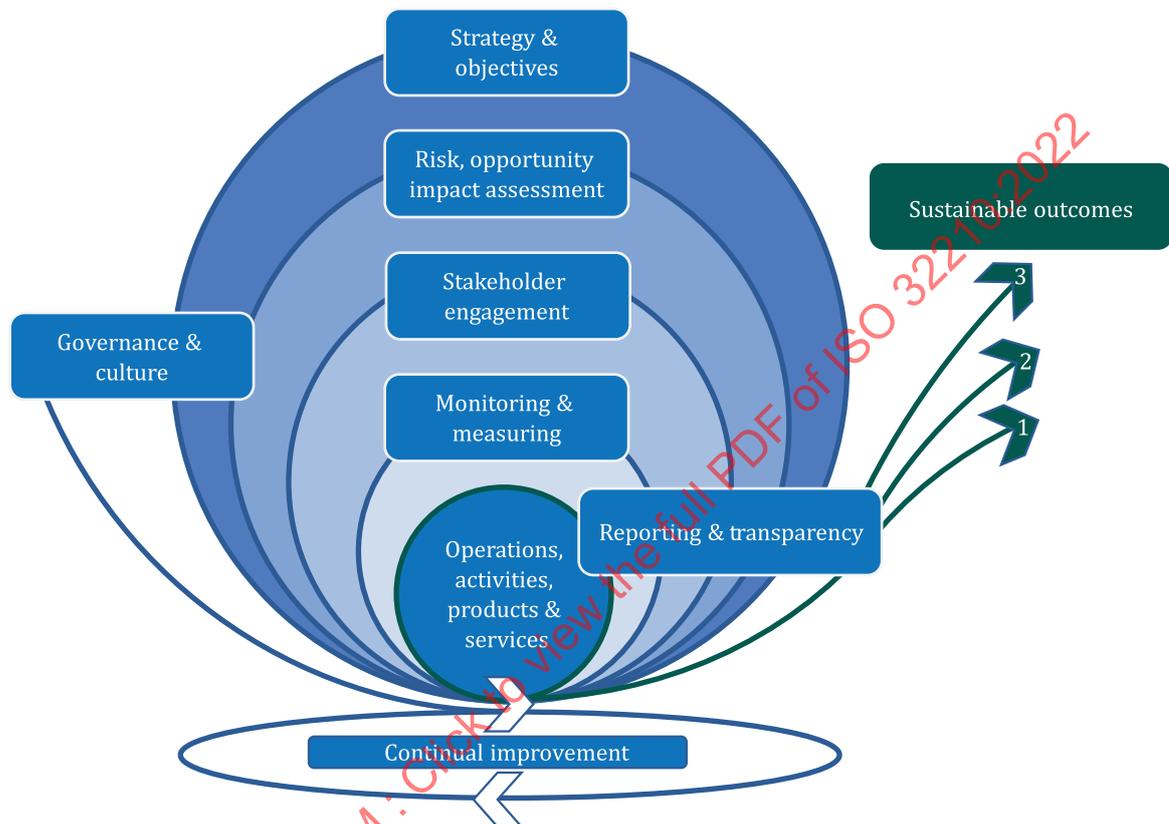


Figure 1 — Interrelationship between the Principles

This document has been designed for organizations to use regardless of their level of expertise or capacity. Organizations can begin by addressing key elements of the Principles starting with governance and culture (see [4.2](#)) and strategy alignment and objectives (see [4.3](#)) initially, and then working through the other Principles concentrically inwards, noting the periodic key reporting and output under reporting and transparency (see [4.7](#)). Using the concept of continual improvement and enhancing ambition (see [4.8](#)), organizations can then use this document to improve sustainability performance and outcomes. Internal operational performance as well as all activities, products and services should be considered by the organization. As such, the Principles are not intended to be hierarchical but rather holistic and interdependent.

4.2 Governance and culture

Effective governance of organizations is required to embed a culture that considers sustainability across the organization. Responsibility for sustainability matters should be integrated throughout corporate culture.

To achieve long-term sustainable outcomes, top management should be committed to the organization's sustainable business strategy and should be accountable to stakeholders.

The governing body should consider whether organizational processes adequately consider all material sustainability impacts, to satisfy themselves that the organization is adequately addressing risk,

creating value, inspiring stakeholder confidence and, where applicable, that fiduciary responsibility is fulfilled. The governing body should identify drivers of value, liability, impact, risk and risk mitigants, while implementing an agreed-upon strategy into all appropriate processes and activities.

4.3 Strategy alignment and objectives

In many organizations “business as usual” is insufficient to deliver long-term sustainable outcomes which are aligned with global sustainability goals and expectations of stakeholders. Institutional transformational change can be required for the organization to reframe its purpose, values and mission to achieve change at the appropriate pace and scale. At the same time, it should be recognized that potentially significant capacity building at all levels, across functions and departments can be required to deliver on sustainability objectives. Effective leadership, commitment and external collaboration are essential to meet these challenges and deliver value to stakeholders.

In order to articulate alignment with sustainability objectives expressed in relevant regional, national and international initiatives, the organization should adopt a governing-body-approved sustainability policy or similar statement. The sustainability statement can include, but not be limited to, any organizational commitments related to aligning with external objectives, setting associated goals and expressing how the organization aims to embed its sustainability strategy across any appropriate operational activities. The organization should, taking into consideration outcomes from stakeholder engagement (see 4.5), provide additional guidance on the development and implementation of the sustainability statement.

The organization’s strategic goals should be ambitious, reflect material sustainability impacts relevant to its activities, consider the maturity of organizational capability, integrate continual improvement and enhance ambition over time (see 4.8).

4.4 Risk and opportunity management and impact assessment

Achieving global environmental and social goals, including tackling climate change, and supporting sustainability requires concerted collaboration of public and private sectors, civil society and academia to effect long-term structural changes and re-orientation of policies, regulations and markets. This transition will have significant impacts on organizations active in the financial sector. A robust understanding of material sustainability impacts, risk (threat) and opportunity management across organizational activities is fundamental. Outputs from stakeholder engagement (see 4.5) should be used to inform this understanding.

Impacts can be positive or negative, financial and/or non-financial, and internal or external to organizational stakeholders.

A robust risk management framework should address the key sustainability drivers (inputs) required to maximize stakeholder value, while factoring in mitigating strategies and the potential for positive and adverse outcomes (outputs) to stakeholder value. Organizations should strive to effectively track or model current, emerging and foreseeable sustainability trends, risks and opportunities.

This analysis should include due consideration of the impact of non-diversifiable, nonlinear risks such as climate change, biodiversity, social inequities, cyber-security and global pandemics.

Environmental, social, economic and governance risks should be considered across the whole organization, throughout the product and service life cycle. Forecasting will determine the organization’s exposure to emerging or foreseeable sustainability risks based on assumptions about the organization’s activities over time.

Conducting scenario analysis can help assess potential future risks and opportunities (see 5.4.4).

4.5 Stakeholder engagement

Adoption of a sustainable finance framework in alignment with the organization’s broader purpose requires effective engagement with, and due regard to, the views and opinions of various interested

parties and relevant stakeholders. As such, it is fundamental to appropriately identify, communicate and engage effectively with relevant stakeholders. This should enable the organizations to empower stakeholders as active contributors to value creation.

Engagement with relevant stakeholders is intended to gain valuable insights, identify various points of view, promote understanding, mitigate risk so as to do no significant harm, and identify best, normative and lagging practices. Feedback from stakeholder engagement should be integrated within an organization's implementation of the Principles, especially throughout governance and strategy, but also other aspects.

4.6 Monitoring, measuring and metrics

Strategic goals should be supported with suitable metrics and associated key impact and performance indicators used to measure progress toward these goals and other material sustainability impacts. Building on existing organizational monitoring and evaluation processes and procedures, appropriate metrics and associated key performance indicators should be identified and monitored.

Monitoring and measuring should focus on material sustainability impact, and present a list of indicators that reflect strategic goals and objectives for the organization.

Where appropriate, indicators and metrics can also be chosen that demonstrate the organization's contribution to realize sustainable outcomes and impact, both expected and realized.

Once established, the monitoring and measuring of sustainability outcomes and impact can enable benchmarking and the measurement of progress toward strategic goals (see 4.3) and the organization's impact (see 4.4), as well as the reporting of progress to stakeholders (see 4.7).

4.7 Reporting, transparency and assurance

An organization should, as a minimum, publicly demonstrate the extent of its progress with each of the Principles. Organizations should aspire to publicly demonstrate progress toward strategic goals and other material sustainability impact objectives by presenting metrics and associated key performance indicators (see 4.6).

Application of the Principles is designed to enable a high level of transparency. An external, third-party review of public disclosures and reporting can facilitate trust and market confidence in these disclosures. Such a review should be considered as good practice.

4.8 Continual improvement and enhancing ambition

The organization should aim for continual improvement both in terms of sustainability outcomes and impacts, but also in enhancing ambition towards global environmental and social goals over time. Therefore, the organization should review its performance, processes and organizational capacity at planned intervals (preferably at least once a year) to ensure adequate implementation of the Principles, to determine opportunities for improvement and incorporate learnings to enhance sustainability outcomes and impacts. Outcomes and impacts can be disclosed in alignment with 4.7.

5 Implementation of sustainable finance

5.1 General

Organizations should embed the Principles outlined in [Clause 4](#) within the organization's activities as appropriate. This clause provides selected good practice guidance on how to implement the Principles at the organizational level. Implementation of the Principles should build on, but not seek to replicate, existing organization processes.

The examples of good practice provided in this clause can be used to embed the Principles, whether to augment existing tools, processes and systems, or in the absence of existing practice. Other tools,

processes or systems also can be more appropriate depending on an organization's market focus, geographical footprint and operational activities. Therefore, this guidance is non-exhaustive, and each organization should consider their own operational implementation requirements as is relevant.

To align the Principles with operational activities, the organization should work across operational functions and understand the interaction between business value creation models and sustainability impacts, risks and opportunities.

Typically, these roles are associated with managing and promoting sustainability performance. However, the successful integration of sustainability is supported by engagement and interfacing with many internal and external stakeholders, including, but not limited to, those responsible for core activities, operations and practices, such as:

- fulfilling fiduciary responsibilities;
- setting and monitoring progress against strategic goals;
- understanding and monitoring risk;
- business development including developing new products and services;
- ensuring compliance;
- approving investments and capital allocation;
- monitoring investment portfolios;
- training and capacity building;
- mapping and analysing sustainability performance, including operational activities, products and services;
- engaging with, and reporting to, stakeholders.

5.2 Governance and culture

5.2.1 Governing body accountability

In order to embrace sustainable finance across the organization, the governing body should integrate sustainability considerations within its existing governance processes by:

- framing sustainability as one of the priorities in the governing body's charter in alignment with the organization's purpose, values and strategy;
- adopting a policy to reflect sustainability as a priority (see [5.3.2](#));
- acknowledging publicly that the organization's performance on material sustainability impact, and its ability to create value and address risk over the long term, is likely to impact the organization's stakeholders and the environment;
- assigning responsibility to drive sustainability and ensure that necessary resources are in place for the organization to meet its long-term sustainable finance objectives, noting that there can be competing short-term interests to consider, and then to measure performance against those objectives;
- establishing effective oversight and controls to ensure that sustainability risk is overseen by an appropriate governing body committee, such as the nominating, audit, risk or governance committees of the governing body, and that sustainability risk is effectively managed in the organization's enterprise risk management processes;
- aligning sustainability priorities with management's strategic approach and implementation;

- ensuring effective communication and engagement with the organization's stakeholders;
- ensuring that workforce policies and practices are consistent with organizational values respecting diversity, inclusion and social equity;
- recognition of the organization's impact on and contribution towards society.

The organization should ensure that accountability for sustainable finance matters rests with a specific director (or equivalent), and that collectively the governing body has sufficient expert technical capability in sustainability matters.

An internal sustainable finance working group, for example, reporting also to the governing body, comprising key employees from across the organization, should be established to oversee the implementation of sustainable finance initiatives. Alternatively, the governing body can be advised and supported by external advisors with expertise in sustainability matters.

The organization should implement mechanisms to allow internal and external stakeholders to express concerns about relevant aspects for the organization or wider sustainability objectives, in the knowledge they are to be treated fairly and stakeholders will be offered adequate protection from reprisals as required (e.g. mechanisms for whistleblowers). As appropriate, stakeholders can be identified as part of an engagement initiative in line with the stakeholder engagement (see 4.5). This can include employees, customers, contractors, suppliers and any other party to whom the organization owes a reasonable duty of care. An organization should offer diverse and collaborative opportunities for all employees to engage in sustainable finance activities to drive innovation in products and services.

5.2.2 Systematic review

A systematic review of existing organizational processes and resources should be conducted to consider the need for additional governance systems and processes to enable effective fulfilment of the Principles. Findings from this review should also be used to identify areas for prioritized action and additional resource. The review can also seek to both enhance organizational capacity, while increasing effectiveness and efficiency of sustainable finance activity. With reference to the Principles, particular consideration should be given to organizational processes, resources, roles and responsibilities associated with:

- contribution to strategic sustainable objectives and targets and performance monitoring and measurement;
- sustainability impact assessment and risk management;
- internal and external stakeholder engagement;
- reporting and disclosure;
- alignment of interest between executive accountability, remuneration and incentivization of sustainable outcomes.

This organizational systematic review should be repeated at least annually, to assess and track the organization's progress towards integrating sustainable finance.

5.2.3 Internal performance management and compensation

Internal performance management and compensation, including for senior executives, should incorporate integrated sustainability-related metrics and targets to incentivize behaviour resulting in the desired environmental, social and governance performance and sustainability outcomes.

Where appropriate, performance management and compensation metrics and targets should be aligned with the organization's long-term business strategy, see 4.3, and metrics and targets guidance provided in 4.6. This role can be fulfilled by a remuneration committee of the governing body or other supervising structures or functions.

5.3 Strategy alignment and objectives

5.3.1 General

The organization's business strategy and activities should aim to become strategically aligned with global, national or regional environmental and social goals over time. This requires an organization to establish strategic goals on material sustainability impact, identify suitable metrics and associated key performance indicators, enable comparison against peers (e.g. using benchmarking or gap analysis as described in 5.3.3 below, where relevant data are available and applicable), and monitor progress towards goals, by contributing to positive outcomes and mitigating negative outcomes. Suitable metrics and associated key performance indicators should be used to measure performance, see 4.6.

Where an organization's current business strategy is not aligned with such goals and objectives, a transition plan can be used alongside existing management and reporting frameworks to align future organizational strategy with organizational goals.

5.3.2 Sustainability statement or policy

The organization should have a clear and defined statement that recognizes its commitment towards international, national or regional sustainability goals and objectives. This statement can be in the form of a policy document.

The statement should include:

- a description of the governing body oversight of sustainability risks and opportunities, and their role and responsibility in assessing and managing these risks, opportunities, impacts and dependencies;
- a description of the organization's purpose, values and mission related to sustainability considerations or goals, as appropriate;
- a commitment towards upholding human rights (e.g. aligned with the United Nations Universal Declaration of Human Rights^[35]), and integrating such rights within the organization's operations, activities, products and services.
- stated expectations for executive implementation, reporting and accountability to the organization's governing body, or other equivalent level, as well as reference to the organization's business strategy and activities with regard to the achievement of overall sustainability objectives and targets, as set out in 4.3, and a consideration of the findings from stakeholder engagement (see 4.5);
- a statement on strategic goals for material sustainability impact, and identification of suitable metrics and associated key performance indicators used to measure progress toward these goals;
- where appropriate, reference to external sustainability initiatives and commitments;
- a description of the organization's risk appetite statement, including consideration of material-sustainability-impact-related risks.

The scope of this sustainability statement should be applicable across all appropriate activities and operations.

The statement should be cross-checked, signed and dated by the CEO, or equivalent, and/or members of the governing body, or equivalent, with accountability for sustainability. The statement should be made available to stakeholders. An annual external review of the contents of the statement (and other sustainability-related published materials) can facilitate trust and market confidence, see 4.7 for more guidance.

Drafting of the statement will be iterative by design, as successful development will include progressive phases conducted in parallel with implementation of other elements of the Principles, as described below.

Input from the following functions and stakeholders can be useful, in particular:

- the governing body;
- the remuneration committee and human resources (both for sustainable performance management and incentivization on sustainability alignment);
- audit, risk and product development;
- internal sustainability team;
- employees;
- marketing and communications;
- clients and customers;
- shareholders;
- suppliers, both downstream and upstream, and other business partners;
- financial markets regulatory bodies and supervisors.

5.3.3 Benchmarking and gap analysis

An organization should seek to establish an understanding of the current operational and strategic baseline and then assess the degree of alignment against global, national or regional sustainability goals, initiatives and market practice. In order to align strategic objectives with global, national or regional sustainability goals, a benchmarking exercise, gap analysis and/or peer review can be conducted in conjunction with the guidance provided in 5.2. In benchmarking an organization's current strategy, consideration should be given to sustainability risks, negative impacts, as well as activities positively contributing to global, national or regional sustainability goals (see also 5.4). Barriers (negative factors) and enablers (positive factors) can also be identified.

5.3.4 Transition plan and strategy implementation plan

Where an organization's current business strategy is not aligned with global, national or regional sustainability goals and objectives, a transition plan should be developed which identifies gaps, core competencies required and interim goals to address gaps, in order to better align current strategy with overarching sustainability goals and objectives. Using the findings of the systematic review and benchmarking exercise, the transition plan can be used to set organizational strategic goals and objectives and identify associated actions and targets (in a strategy implementation plan) and timelines required to enable fulfilment of these. In developing the transition plan all appropriate of core activities and/or operations relevant to an organization's strategy should be considered.

Used either in conjunction with a transition plan or on a standalone basis, a strategy implementation plan should enable communication, accountability and allocation of responsibilities to support operational implementation of the new strategy. Milestones can be established to enable monitoring of progress of the new strategy.

5.3.5 Development of new products and services

The financial sector plays a crucial role in the global transition to a more sustainable, balanced, inclusive and resilient future in which human lives are improved and the environment is enhanced. Innovative products, services and financial instruments such as sustainability linked debt instruments (e.g. loans and bonds) will further support the growth in demand of sustainable finance. This presents a compelling long-term opportunity to add value, while achieving real impact and sustainable outcomes. New products and services should be aligned with strategic sustainability goals and be transparent in intended or actual outcomes and impacts. Each of the key elements of the Principles can be applied

at the product level during development, structuring, market engagement and operations to enable sustainable outcomes and positive impact.

Transparent disclosure and reporting of intended or actual outcomes and impacts at the product and service level is particularly encouraged to facilitate stakeholders' trust and market confidence.

5.4 Risk and opportunity management and impact assessment

5.4.1 General

Consideration of current and future risk and opportunity within activities should enable development of better-informed strategic objectives, improve risk control, and can also enhance long-term performance. Some illustrative examples of trends and impacts in financing activities which can support in such considerations are illustrated in [Table 1](#).

For risk and opportunity management and impact assessment implementation, a range of tools are available to organizations to use. Organizations are advised to use recognized best practices and comprehensive assessment models in order to satisfactorily cover all relevant sustainability dimensions of analysis and decision-making. Innovations in assessment and evolving market practices around risk or opportunities and impact assessment should also be considered. Periodic benchmarking and gap analysis can be used to consider recognized state-of-the-art good practice. Sustainability-related risks should be integrated into existing organizational management control, governance frameworks and discrete processes, e.g. capital allocation investment decision-making, monitoring and management. Existing organizational risk identification and control frameworks should be augmented to include consideration of sustainability risks and opportunities. Comprehensive assessments can then be conducted to identify and manage potential risks and opportunities associated with material sustainability impact, so that the nature, type, scale, depth and duration of associated impacts can be understood, with a view to reduce negative impacts to an acceptable level and maximize positive outcomes. Scenario analysis is a tool that can help assess potential future risks and opportunities (see [5.4.5](#)).

Table 1 — Illustrative sustainability trends and impacts in financing activities

Trend	Impact
Market trends and impacts	<p>Costs of capital increases for less-sustainable activities and decreases for more-sustainable activities.</p> <p>Credit ratings for organizations and instruments (bonds, loans, etc.) are downgraded or upgraded due to sustainability factors, leading to impacts on cost of capital (see above) and reputation.</p> <p>Product and service life cycle: disruptions due to changing environmental and social factors, including modern slavery and human rights considerations, lead to increased costs of supply.</p> <p>Institutional investors' capital allocation shifts from less-sustainable activities to tilt to more-sustainable activities, leading to greater transition risk for less-sustainable activities (and less opportunity) and lower transition risk for more-sustainable activities (and higher opportunity).</p> <p>Mis-labelling, mis-marketing, public disclosures which are misleading or top management's strategy being mis-aligned with long-term sustainable outcomes lead to liabilities, compensation or court action.</p> <p>Changing consumer preferences leads to increased demand for transparency and sustainable products (more or less market share).</p> <p>Financial inclusion for individuals and businesses: restrictions in access to useful and affordable financial products and services results in impact on reputation and adverse impact to sustainable outcomes.</p>

Table 1 (continued)

Trend	Impact
New regulatory trends and impacts	<p>New taxonomies for sustainable activities leads to increased focus on sustainable performance and increased allocation of institutional capital to sustainable activities.</p> <p>Increased regulatory disclosure leads to greater stakeholder scrutiny.</p> <p>Sustainability responsibilities and legal expectations for top management become defined in law or within codes of conduct, and therefore directors, trustees, officers, etc. are obligated to include sustainability considerations within the role, leading to greater compliance risk and associated costs.</p> <p>Financial regulators and central banks require stress tests and sensitivity analysis, leading to greater compliance costs and stakeholder scrutiny.</p> <p>A change in government policy leads to not only an increase in risk and compliance, but also opens new markets and investment opportunities.</p>
Operational trends and impacts	<p>Organizational strategy is re-orientated toward more resilient, lower carbon intensive, more sustainable assets classes.</p> <p>Long-term sustainability organizational capacity building is required throughout operational departments and functions, including the governing body or top management, investment committee, asset management, legal, compliance, communications, human resources, and audit and risk.</p> <p>A focus on forward-looking scenario analysis and disclosure within operations including for:</p> <ul style="list-style-type: none"> — physical risk (e.g. as a result of climate change, such as flooding, drought, wild-fires); — transition risk (e.g. government action, technology disruptions, changing investor and customer expectations, carbon pricing, carbon tax). <p>Increased stakeholder expectation that executive compensation be linked to sustainable outcomes and sustainability metrics with transparent disclosure on transparent performance.</p>

In many cases, the consideration of risk and opportunity at the organizational, portfolio and asset levels is supported by a dual top-down holistic view, as well as bottom-up, asset-level approach (see [Figure 2](#)). Asset-level information or data should involve physical asset data (real economy data) as this information is essential to properly assess risks (e.g. physical risks can only be properly assessed if the exact location of physical asset is available). These are discussed further in [5.4.2](#) and [5.4.3](#).

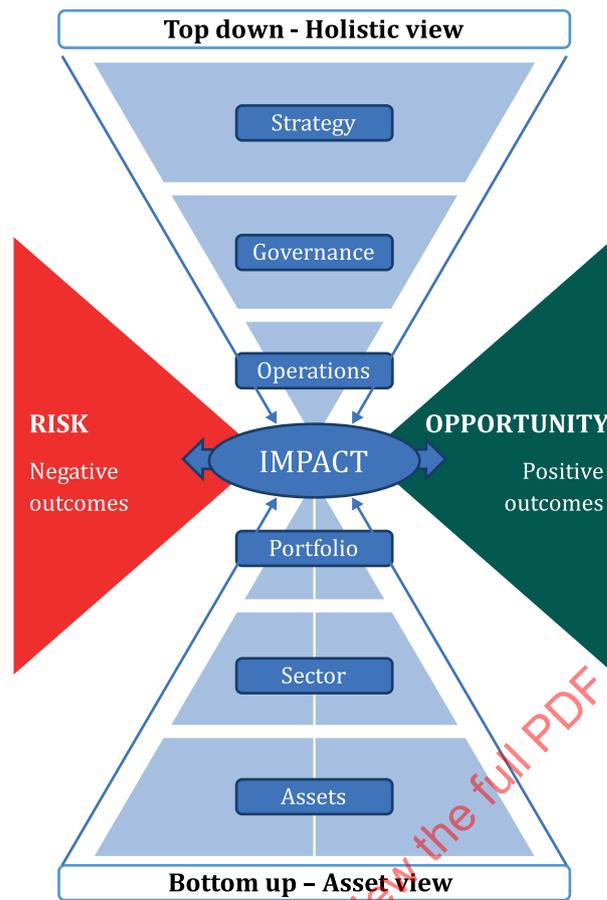


Figure 2 — Dual nature of an organizational-level assessment and consideration of negative and positive outcomes

As a general note, an organization's stakeholders can have significant interest in supporting the implementation of risk and opportunity management and impact assessment by provision of data related to assets in the real economy, which is not necessarily under the direct control or influence of the organization. This is particularly relevant for stakeholders with access to location-specific data, e.g. for physical climate impact considerations.

5.4.2 Organizational-level risk evaluation and impact assessment

Exposure to risk and opportunities should be assessed during regular evaluation (e.g. annually) of organizational-related processes, procedures, systems and strategic plans.

Systemic risks which can be considered at the organizational level include, but are not limited to:

- climate change;
- unsustainable natural resource use;
- biodiversity loss and ecosystem destruction;
- global pandemics;
- chronic disease;
- aging populations;
- social inequity;

- war, conflict or unrest;
- polarization of society;
- cyber-security;
- disasters.

An appropriate assessment should cover key business operations, activities, products and services, such as:

- the types of financial products and services provided;
- functions and operational areas including internal control;
- economic sectors and activities;
- technologies financed;
- geographical exposure;
- affected stakeholders;
- the robustness of specific control measures in place.

In each case, the assessment should consider exposure to risk on:

- an inherent (non-controlled) basis: the likelihood that an adverse event can occur with no controls in place;
- a residual (controlled) basis: the likelihood that an adverse event can occur with controls in place.

Inherent risk typically arises due to the complexity and dynamic nature of the risk event or measurement task, making it difficult for investors or financial entities to determine if the financed organization or investee is sufficiently protected and financially stable. Unaddressed, inherent risk can, for example, lead to management under-estimating risks posed by factors including, but not limited to, those listed above. Residual risk can still occur even after controlling for inherent risk by adopting policies, protocols and best practices to embed resilience measures to mitigate against inherent risk, such as hiring experts, purchasing insurance or conducting training.

The organization should engage with relevant stakeholders (see [5.5](#)) to inform the assessment. Assessments should include consideration of key dependencies, trade-offs, liabilities, synergies, mitigants, risks and opportunities associated with the outcomes and impacts of the organization's activities. This can provide the basis for an organization's response as part of existing management and reporting frameworks and the structured analysis of outcomes and impact. Scenario analysis is a tool that can help assess potential impacts of risks and opportunities (see [5.4.5](#)).

5.4.3 Client, asset and portfolio-level risk and impact assessment

Organizations should mainstream the identification, assessment, management and measurement of sustainability-related risk and impact into assessments of client risk exposures, as well as for real assets, and portfolio appraisal procedures and systems with a long-term and forward-looking perspective in mind. The emphasis should be on identifying impact from an early stage, recording action taken to manage risks, increasing resilience, realizing opportunities, and ultimately measuring the sustainability outcome or performance and impact (ex-ante and ex-post).

Consideration should be given to aligning various client risk tolerances with the organization's overall risk appetite and sustainability goals.

5.4.4 Scenario analysis

Scenario analysis is typically used to inform decision-making when faced with uncertainty. It can deepen an understanding of potential sustainability and related financial risks and help to identify opportunities and resilience measures across possible future events. Scenario analysis is helpful for assessing climate-related risks or opportunities given various warming scenarios and sector-specific impacts over short, medium and longer time horizons. It can also be used to address sustainability risks such as cyber-security, technology, future pandemic readiness or supply chain risks. By exploring the range of outcomes and analysing the impact in a structured manner, scenario analysis can help organizations better understand risk exposure and opportunities to inform business strategy, mitigate risks and communicate to stakeholders. It can also support demonstrating alignment with regulatory and financial supervisory requirements, e.g. for climate-related stress tests and disclosures. Scenario analysis does not need to be complex initially; organizations can start with qualitative analysis and then add quantitative analysis, culminating in an integrated assessment model over time. [Table 2](#) provides guidance on conducting a scenario analysis.

[Figure 3](#) illustrates a climate-related scenario analysis showing an iterative and circular approach using different inputs, scenarios and feedback loops. As such, this is a dynamic process.

In undertaking a climate-related scenario analysis, consideration should be given how to balance comprehensiveness with simplicity. Simpler models can be more practical to apply and interpret, although more complex models can better capture the full range of climate change impacts. For climate-related scenario analysis, organizations can estimate both transition risk and physical risk by both quantitative and qualitative analysis, to assess value at risk, culminating in an integrated assessment approach over time. Third-party tools and models are available to support conducting a climate-related scenario analysis.

Table 2 — Conducting a scenario analysis

Step/stage	Action and considerations
First step	A first step in climate-related scenario analysis is to identify the desired time frame for the scenario, whether 5 to 10 years, 10 to 15 years, or 15 to 20+ years. This can inform whether to first address a portfolio’s potential exposure to physical, weather-related climate risk (such as natural disasters and chronic weather pattern changes which can manifest over longer time periods) or its exposure to transitional climate risk (such as policy and legal, technology, market and reputational risk which can be easier to predict across shorter time frames).
Impact factors	<p>A further decision when conducting scenario analysis is what assumptions to choose for input factors such as gross domestic product (GDP) growth and inflation. However, it is not necessary for this to be an overly complex process in order to be useful.</p> <p>The organization should consider choosing a business-as-usual scenario (BaU) compared to at least one other possible scenario. In the case of climate scenario analysis, it is prudent to consider both 2 °C and 4 °C of warming by the year 2100 scenario, against a scenario of less than 2 °C of warming by the year 2100. Then the organization can track the impacts of each scenario on its portfolio including by asset class and region, over time as part of its analysis and materiality assessment.</p> <p>An organization can develop or choose to tailor reference scenarios to their own business model based on different future assumptions, or simply present a series of “what if?” questions and “if then” options. For example, “what if carbon pricing become mandatory?” or “what if regulatory requirements for green building certifications are strengthened?”. The future financial impacts of these scenarios can then be assessed.</p>

Table 2 (continued)

Step/stage	Action and considerations
Outcomes	<p>As an outcome of this process, the organization will be able to identify key risks including, but not limited to, those associated with impairments (reduction in the value of an asset), business interruptions, loss of social licence or reputation, as well as opportunity costs. Furthermore, climate change adaptation measures can be considered.</p> <p>The scenario analysis should also reveal opportunities, such as the potential to reallocate capital to and develop new projects and services, that enhance and promote sustainable outcomes. The results of this process can then further inform and enhance strategy alignment and objectives. In addition, the scenario analysis can be used as a basis to enhance institutional capacity and share knowledge with internal and external stakeholders (see 4.3 and 5.3).</p> <p>The organization can develop “signposts” to indicate which version of the future or scenario is most likely to emerge supported with appropriate assumptions.</p> <p>Findings from scenario analysis can support the implementation of:</p> <ul style="list-style-type: none"> — governance and culture (including governing body accountability); — strategy alignment and objectives (including within a transition plan and in the development of new projects and services); — risk and opportunity management and impact assessment (as a core component); — stakeholder engagement (to gain insights, promote understanding, mitigate risk and contribute to value creation). <p>In addition, findings from scenario analysis can indirectly support the implementation of:</p> <ul style="list-style-type: none"> — monitoring and measuring; — reporting, transparency and assurance; — continual improvement and enhancing ambition.

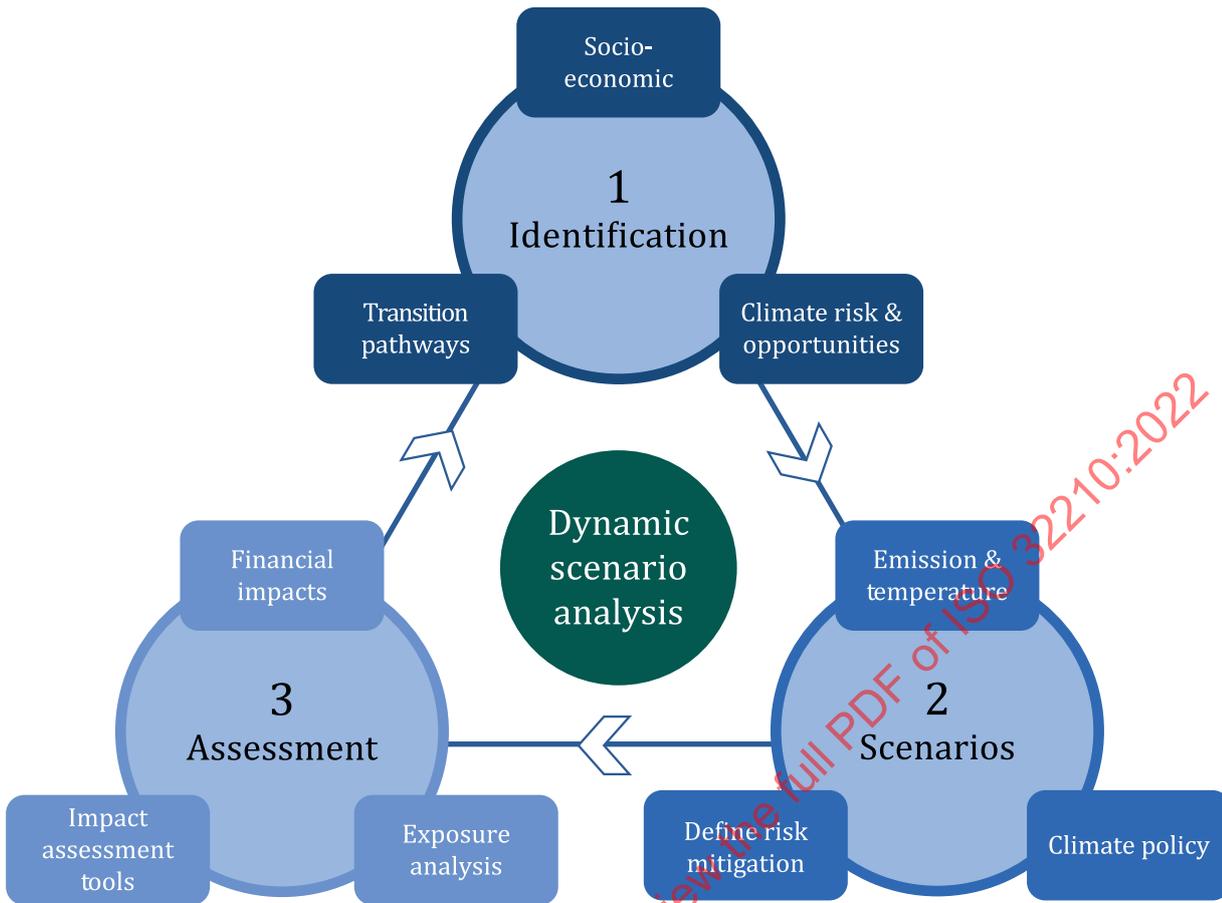


Figure 3 — Example climate-related scenario analysis showing a dynamic, iterative and circular approach

5.4.5 Alignment with other principles

For organizational, asset or portfolio level considerations, the risk and opportunity management and impact assessment should be aligned with the organization’s strategy and objectives (see 4.3). Assessments should be conducted with the engagement of relevant stakeholders (see 4.5), should include relevant metrics as part of monitoring and measuring (see 4.6) and, as applicable, should be disclosed in line with reporting, transparency and assurance (see 4.7).

5.5 Stakeholder engagement

Successful execution of the framework Principles requires engagement and collaboration with a range of relevant internal and external stakeholders.

Relevant stakeholders include, but are not limited to:

- clients or pension plan beneficiaries;
- receivers of capital;
- investors;
- business partners;
- regulators;
- employees;

- government and policymakers;
- suppliers;
- academia;
- civil society;
- intergenerational beneficiaries or their representatives;
- trade unions;
- media;
- indigenous peoples;
- impacted communities.

Identification can be influenced by the stakeholder's dependency on the organization, responsibility to the organization, ability to exert influence on the organization, and diversity of perspectives relative to the established views of the organization. Consideration should also be given to any other party to whom the organization owes a reasonable duty of care, or other parties impacted by the organization.

Within the value chain, stakeholders have strong market-oriented linkage with each other, and an alignment of interest can be a powerful mechanism to achieve strategic sustainability objectives. In this context, it can be especially important to consider issues such as value chain carbon emissions, circular economy and human rights. The organization should work collaboratively with stakeholders across the value chain to deliver financial solutions, products and services to achieve strategic sustainability objectives. This may also include initiatives to increase financial literacy, and understanding of sustainable finance, with stakeholders.

Stakeholder engagement should include all appropriate organizational activities and/or operations associated with implementation of the Principles, for example:

- governance and culture (drivers of value, liability, impact, risk and risk mitigants, agreed strategy);
- strategy alignment and objectives (transformational change, purpose, values and mission, new strategy, content of a sustainability statement, ambitious strategic goals);
- risk and opportunity management and impact assessment (material sustainability impact and risk or opportunity management, and scenario analysis);
- monitoring and measuring (suitable metrics and associated key performance indicators used to measure progress toward strategic goals);
- reporting, transparency and assurance (type and nature of disclosures, need for external review);
- continual improvement and enhancing ambition (towards the achievement of global environmental and social goals).

In order to demonstrate alignment with this principle and the requirements of reporting, transparency and assurance (see 4.7), an organization should, as a minimum, document and make available an account or record of the relevant stakeholders identified and engaged, as above, as well as the key issues raised by stakeholders and resultant actions.

[Figure 4](#)) illustrates an approach to stakeholder engagement and management, by categorizing stakeholders based on their “influence” and “interest”.