



Proposal

ASEAN SUSTAINABLE BANKING PRINCIPLES

Prepared by the State Bank of Vietnam - Technical guidance from the IFC/SBN

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The concept of sustainability

UN WCED
1987

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs

Available from: www.un.org/wcted
This is a summary document
Look to the bottom of the page
links

EU Sustainable Finance
Action Plan

“Sustainable finance” refers to the process of taking due account of environmental and social considerations in investment decision-making, leading to increased investments in longer-term and sustainable activities

UNEP FI
2016

Sustainable Finance involve considerations of environmental, social, governance and economic issues in the decision-making process

UNEP FI
2016

Three aspects of sustainable banking:

- Responsibilities and actions to be taken at all levels and across all the key functions of banks
- Understanding and managing risk from sustainability, perceiving strategic dimension of these issues
- Communicating and engaging - within the bank, with peers and with stakeholders

The concept of sustainability

SBV proposes that sustainable banking in ASEAN should cover

Risk management

Integrate environmental, climate, social and governance risks into lending considerations to avoid or mitigate financial losses, reputational risk or harm to the environment and people caused by project financing



Business Opportunities

Support lending to businesses that are environmentally friendly and socially responsible, a rapidly growing trend in line with a global commitment to increase funding for climate change solutions

Rationale for ASEAN Sustainable banking principles



SUSTAINABLE DEVELOPMENT GOALS



Rationale for ASEAN Sustainable banking principles

Global level

UN Responsible Banking Principles UNEP FI Guide to Banking and Sustainability

For banks, banking associations and banking regulations.

To understand and promote sustainability

To champion banks' roles in preserving the banking system's safety and soundness vis-à-vis environmental and social risk drivers

ASEAN

Joint statement of AFMGM in 2019

To agree on the important role that banks play in the allocation of resources. Banks' intermediation has helped promote growth and stability for ASEAN countries.

To encourage the banking community of ASEAN to gradually adopt the principles of sustainable finance into business practices

ASEAN Vision to 2025

Protecting the environment and natural resources will support economic growth and vice versa, hence the banking industry has a pivotal role to play in promoting environmental and natural resources protection

Rationale for ASEAN Sustainable Banking Principles

NGFS's recommendations

1. Integrating climate-related risks (including physical and transition risks) into prudential supervision.
2. Incorporating elements of sustainability into banks' portfolio management
3. Supporting the development of a taxonomy of green or sustainable economic activities
4. Encouraging banks to implement recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

SBN's recommendations

1. Embed environmental, social and governance (ESG) and climate risk management, green and climate-finance targets into financial operations
2. Establish robust reporting and monitoring frameworks
3. Understand and manage climate risks
4. Support behavior change of financial institutions through capacity building

Task Force - Results

The Roles of ACBs in managing climate and environment-related risks



ASEAN Sustainable Banking Principles

Principle 1

Business strategy should align with Sustainable Development Goals (SDGs) and climate change targets

Principle 2

Measuring and managing environmental, social and climate-related and governance risks

Principle 3

Impact of internal banking operations on climate change, environment and society



Principle 4

Strengthen human resources towards sustainable banking

Principle 5

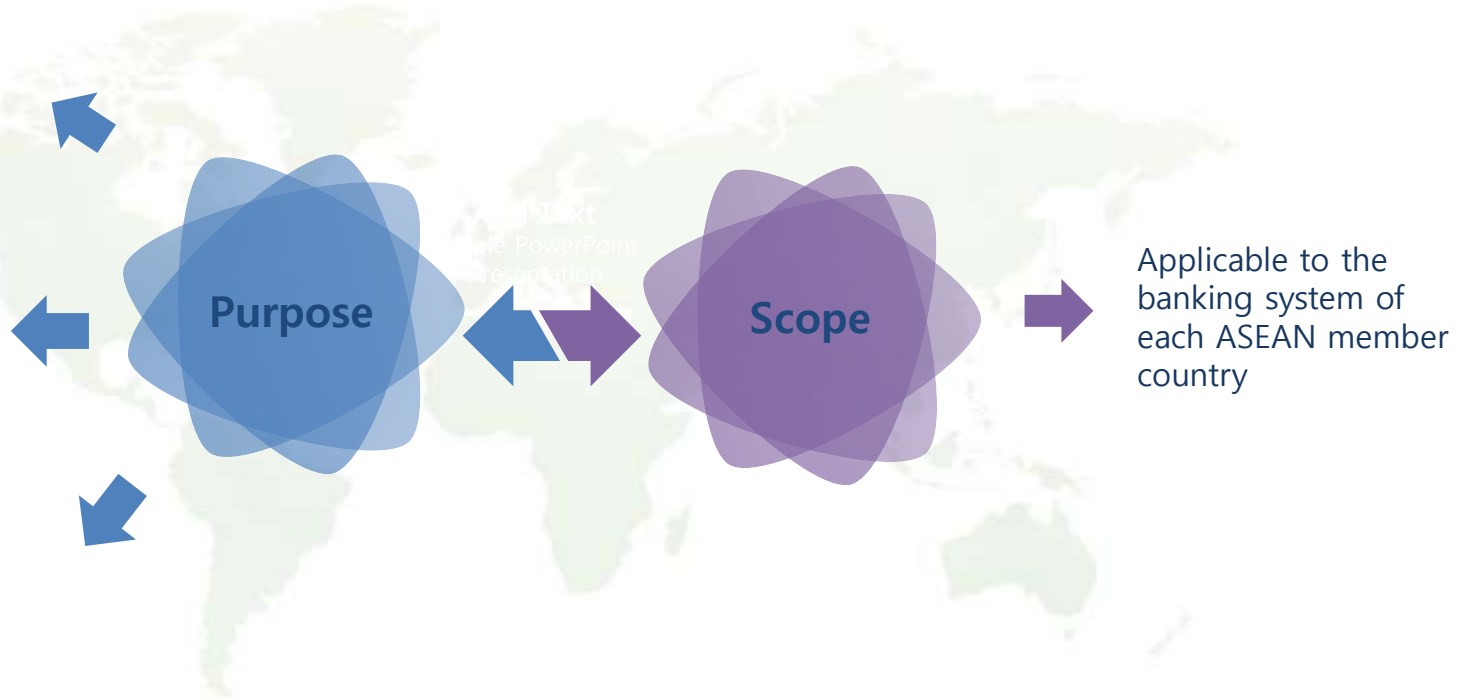
Data collection, external communication and transparency

Purpose and scope of ASEAN Sustainable banking principles

Provide general principles of sustainable banking for banking systems in member countries.

Guide members' banking systems to formulate sustainable banking guidelines and implementation roadmaps

Contribute to implementation of the sustainable economic development goal of the ASEAN Economic Community Blueprint 2025



Applicable to the banking system of each ASEAN member country

ASEAN Sustainable Banking Principles

Principle 1: Business strategy should align with Sustainable Development Goals and climate change targets

Key elements

- Develop and implement a sustainable business strategy and apply it to all banking activities
- Set short-term and long-term goals, develop a roadmap to achieve long-term sustainability goals
- A sustainable banking mandate is integrated into the bank's vision, mission, business plan, processes and product development programs
- Build innovative banking products and services to support business activities with positive environmental, climate and social impacts
- Builds a green/climate portfolio and set quantitative targets for climate and green banking products and services
- Develop a plan to implement financial inclusion strategy

Relevant international standards/guides

- Principles for Mainstreaming Climate Change
- Green Bond Principles
- Green Loan Principles
- Climate Bond Initiative
- ASEAN Green Bond/Social Bond/Sustainability Bond Standards
- Global Partnership for Financial Inclusion, G20 Financial Inclusion Indicators
- Alliance for Financial Inclusion
- Maya Declaration on Financial Inclusion
- ASEAN Community Vision 2025

ASEAN Sustainable Banking Principles

Principle 2: Measuring and managing environmental, social and climate-related and governance risks

Key elements

- Develop internal policies, procedures and tools to measure and manage environmental, climate, social and governance risks throughout lending processes at transaction and portfolio levels
- Develop information system solutions to track, manage and continuously monitor environmental, climate, social and governance risks.

** The management of environmental, climate, social and governance risks applies not only to the bank's corporate lending activities, but also to investment and retail banking.*

Relevant international standards/guides

- IFC Performance Standards
- United Nations Guiding Principles for Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- World Bank Group Environmental, Health and Safety Guidelines
- Equator Principles
- ISO 14001 - Environmental Management
- Guiding Principles for Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework.

ASEAN Sustainable Banking Principles

Principle 3: Impact of internal banking operations on climate change, environment and society

Key elements

- Minimizing and effectively using input resources through improving energy and water consumption efficiency, minimizing waste and switching to clean energy sources and recycling materials where feasible. This could include monitoring energy and water consumption and selecting socially and environmentally responsible suppliers.
- Contribute to environmental protection and community development activities

Relevant international standards/guides

- Knowledge Hub of the Task Force on Climate-related Financial Disclosures (TCFD)
- CDP, formerly the Carbon Disclosure Project
- Water Footprint Network, the Water Footprint Assessment Manual
- Forest Stewardship Council (FSC) rules and methods guiding the certification of sustainable paper and paper products
- Universal Standards for Social Performance Management (manual of best practices for microfinance)

ASEAN Sustainable Banking Principles

Principle 4: Strengthen human resources towards sustainable banking

Key elements

- Define the roles and accountability levels of sustainable banking implementation
 - ✓ Board of Directors and sub-committees
 - ✓ Chief Executive Officer and senior management
 - ✓ Functional departments/divisions
- Requirements for sustainable banking knowledge and staff expertise: A competency framework encompassing technical knowledge, specific expertise and necessary skills will be required at each position/role
- Improve the quality of human resources for sustainable banking

Relevant international standards/guides

- IFC First for Sustainability
- IFC Sustainability Training and E-Learning Program (STEP)
- IFC E-Learning Course on Managing Environmental and Social Performance
- UNEP FI Sustainable Finance training program (including e-learning)

ASEAN Sustainable Banking Principles

Principle 5: Data collection, external communication and transparency

Key elements

- Develop an internal information system to track and report on sustainable banking implementation parameters to monitor and evaluate the implementation of related strategies and action plans on sustainable banking. Assessing the impact of the carbon and climate footprint of the bank's credit and investment activities.
- Issue reports on the implementation these Principles to regulatory agencies and other stakeholders on a regular basis and discloses related information in the public domain,
- Central banks supervise the implementation of the ASEAN Sustainable Banking Principles

Relevant international standards/guides

- Global Reporting Initiative (GRI) standards
- Recommendations of the TCFD
- Sustainability Accounting Standards Board

Expected outcomes at ACGM

Option 1

ASEAN Central Bank Governors **to endorse the ASEAN Sustainable Banking Principles** and encourage ASEAN Central banks to subsequently continue their own effort on issuing guideline to the implementation of the ASEAN Sustainable Banking Principles.

Option 2

ASEAN Central Bank Governors **to endorse the ASEAN Sustainable Banking Principles** and task the Senior Level Committee (SLC) to guide the formulation of a roadmap by an appropriate working committee/taskforce, which will serve as reference for individual ASEAN Central Banks in their implementation

Proposal to SLC Meeting

- On 22 February 2020, SLC will consider on pursuing the initiative on development of ASEAN Sustainable Banking Principles proposed by the State Bank of Viet Nam. Once being endorsed, SLC members shall work together on finalizing the Proposal and looking forward to the possibility to submit the proposal to the ACDM and ACGM (scheduled in March 2020) It is noted that the Proposal will be a joint report/outcome product of SLC members
- At ACDM/ACGM, it is expected that ASEAN Central Banks' Governors will make joint statement on "the consensus option" agreed and proposed by SLC members intersessionally.

Tentative Timeline

SLC to pursue the SBV's initiative

Once being endorsed, SLC members shall work together on finalizing the Proposal and looking forward to the possibility to submit the proposal to the ACDM and ACGM

The revised Sustainable Banking Principles to be circulated as final version

SLC to present the Proposal as the joint outcome of ACBs at ACDM

22 Feb

1 Mar

10 Mar

19 Mar

24 Mar

27 Mar

The SBV will be the focal point for (i) redrafting the Proposal basing on comment s/feedback from ACBs, and (ii) collaborating among countries for the proposal to be submitted by SLC to ACDM/ACGM for decision

SLC members to provide initial comments and feedbacks on the draft Proposal

SLC members to process with internal procedures for endorsement of the Proposal

ASEAN CBs Governors to make joint statement on "the consensus option" agreed and proposed by SLC members intersessionally



Thank you