



How PAS 7340 is helping to make sustainable finance mainstream

Organizations from HSBC to WWF UK helped to develop the first standard in a pioneering framework

The story at a glance

- From climate crisis to extreme poverty, the world is facing unprecedented social and environmental threats.
- The finance sector has a vital role to play in meeting these global challenges, but this will require transformational change.
- The Department of Business, Energy & Industrial Strategy sponsored BSI to develop a standards programme designed to encourage financial services organizations to adopt sustainable finance practices.
- PAS 7340, the programme's first standard, gives finance companies a framework for implementing sustainable finance approaches – helping them to align their activities with the UN SDGs, and increasing investor and public confidence in the sector.

The starting point

The world is facing a cluster of complex and interrelated challenges: climate crisis, ecosystem collapse, extreme poverty, and a global population forecast to reach 9.7 billion by 2050.

These social and environmental threats require action from the finance sector. Finance plays a central role in society, providing services to investors, borrowers and lenders to ensure proper risk management and efficient allocation of capital. Now, by aligning with climate goals, it could also help to deliver new jobs, mitigate climate change, improve public health, enhance monetary resilience and more.



The challenge

Finance organizations need transformational change – not only to fulfil this critical role, but also to grasp the opportunities signalled by public concern about the impact of their own investments, and by increasing consumer demand for green financial products and services.

However, there was no clarity on how financial organizations should go about this. Companies were struggling with issues ranging from a lack of common definitions and terminology, to a lack of consistent guidance on factoring ESG considerations into financial decision-making.

The challenge was to equip those in the finance sector with an understanding of what sustainable finance practices would look like, and to develop their own strategies for embedding sustainable finance in their policies, processes, products, services and value chains.

This would enable the UK to build on its global leadership in green finance by shifting it into the mainstream.

Solution

A business that is mature in the journey of sustainable finance is Barclays bank, their working practices/policies were already aligned with the common principles outlined in [PAS 7340](#).

Barclays manage their environmental and social impact through a combination of policy, standards and guidance. Transactions follow a standardized process embedded within Credit Risk and Reputation Risk frameworks.



Clients or transactions triggering raising environmental and social impact concerns are referred to Group Credit Risk (where Environmental Risk is embedded), and Group Sustainability teams for review and external technical input obtained where required in the assessment of transactions against strict internal criteria.

Barclays Credit Risk team applies an Environmental Risk Standard, which implements the Equator Principles, and relevant IFC standards as well as relevant sector standards, while Group Sustainability provides advice to business stakeholders across a wider range of issues related to human rights and climate change, engaging regularly with NGOs and civil society.

These teams assess individual client relationships and transactions, taking into account both energy transition and physical climate risk, and seeking to understand the client's strategy for managing their own transition journey.

Alongside their strategy to align with the goals of the Paris Agreement, Barclays have increased their commitment to green and sustainable finance, with a new target to provide at least £100 bn of Green Finance by 2030 including the launch of a Sustainable Impact Capital Initiative, to invest £175 m over a 5-year period in the equity of innovative, environmentally-focused private companies.

Barclays was the first UK bank to launch a Green Home Mortgage, a new retail product that rewards personal banking customers for purchasing an energy efficient home. Following a review of their mortgage backbook against Government provided Energy Performance Certificate (EPC) data they identified a relationship between mortgage performance on new build homes and the building's energy efficiency – mortgages on energy efficient homes having a 13% lower probability of default.

The Green Home Mortgage offers a lower interest rate (in comparison to the equivalent core range mortgage) to customers purchasing an EPC A or B rated new build home. It enables the financial system to directly reward people for choosing an eco-friendly home, giving them extra value on top of the savings they will make on energy bills, as described by one of their customers in Portsmouth:

The proceeds of a €500 m green bond have been used to finance and refinance the green mortgages.

Barclays has committed to supporting entrepreneurs with ambitions to have a positive social and environmental impact, particularly those that are scaling rapidly. In 2016, they developed "Unreasonable Impact", a multi-year partnership with Unreasonable Group, to launch the world's first international network of accelerators focused on scaling up entrepreneurial businesses that will help employ thousands of people around the world, while solving critical environmental and societal challenges. To date, the programme has worked with 124 ventures, providing them with the resources, mentorship and a global network needed to rapidly scale their companies. The Unreasonable Group estimates that collectively these companies have created 20 000 new jobs and have positively impacted over 187 m people.

Their innovative suite of green finance products also includes green corporate deposit facilities and a green 'Eagle Lab' (a space for green entrepreneurs to grow) each representing a first to market innovation. They currently support over 470 start-ups and to date their members and alumni have collectively raised over £600m of funding.

A comprehensive ESG Report is published alongside their Annual Report in response to specific stakeholder interest on non-financial matters, including material environmental and social topics. The ESG report provides additional

disclosures and acts as a guide to supporting information in other documents in the Annual Report suite, continuing to align and integrate ESG disclosures with the overall reporting approach.

Barclays was a founding member of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD).

Since the publication of the Taskforce's final recommendations in 2017 Barclays has aligned its disclosures to follow the TCFD guidance.

Their approach includes scenario analysis and the outcomes of their internal stress test, as well as providing a comprehensive overview of their risk management approach.

They have also increased the granularity of information about credit exposures in climate-related sectors. For example, they are now disclosing not just overall carbon-related assets, but also detailed lending data related to climate change risk for a range of carbon-intensive sectors, such as steel, chemicals and transport.

Barclays is a member of, or signatory to, a number of climate-specific initiatives.

They have been a member of the United Nations Environment Programme Finance Initiative (UNEP FI) for more than 20 years. They partnered with UNEP FI and collaborated with other members to develop the Principles for Responsible Banking, launched in September 2019.

Barclays continue to strengthen the integration of social and environmental issues into their business. The Barclays PLC Board assumed responsibility for these matters from the former Board Reputation Committee during 2019. Demonstrating the growing strategic importance of these issues, the Group Executive Committee created the Environment & Social Impact (ESI) Committee in June 2019 to manage the overall delivery of environmental and social strategy and underlying initiatives.



About Barclays

Chaired by the CEO, the ESI is convened to provide senior oversight and set the overall direction of Barclays' strategy to manage its broader social and environmental impacts.

The Group Chief Risk Officer has been appointed Senior Manager responsible for climate-related financial risk under the Senior Managers Regime.

Following in-depth Board discussion and extensive dialogue with shareholders and other stakeholders, their commitment now is to play much more of a leading role in tackling climate change. Specifically, **Barclays' ambition is to become a net zero bank by 2050, across all direct and indirect emissions** (Scopes 1, 2 and 3), and are committed to align all their financing activities with the goals of the Paris Agreement, one of the very first banks to make such a commitment, across both lending and financing, and across all sectors.

Barclays is a British universal bank. They are diversified by business, by different types of customer and client, and by geography. Their businesses include consumer banking and payments operations around the world, as well as a top-tier, full service, global corporate and investment bank.

Why BSI?

BSI lead the world in standards and our trademark Kitemark™ is recognized globally as a symbol of quality and safety. For a standard to be accepted and adopted by Governments, Industry, trade associations and businesses of all sizes it must be built on consensus and credibility. The PAS is developed through a rigorous consensus based process, evolved by BSI over more than 100 years.

Our aim

We aim to improve the quality and safety of products, services and systems by enabling the creation of standards and encouraging their use.

New standards are being developed all the time as new sectors, markets and business models emerge. The sooner these standards are in place, the faster and more efficiently growth occurs.

Take the lead in your sector

Learn more about what your business will gain by sponsoring a PAS, visit:
bsigroup.com/pas

For more information on the Sustainable Finance programme visit:
www.bsigroup.com/SustainableFinance

Or get in touch with us to discuss creating a PAS today!



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