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Sustainable finance — Basic concepts and key initiatives

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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

The practice of sustainable finance is evolving fast and is being endorsed by an increasing number of regions, countries and economic entities with different focuses. Given this dynamic, there is a need to inform users about basic concepts, key initiatives and terms in common use, in order to facilitate communication among various types of financial market participants and stakeholders across wide geographic regions.

To compile this document, many information sources were reviewed. These included international, regional and national policies and frameworks, official websites and publications by multilateral development financial institutions, international initiatives and organizations which contribute to promoting, enabling and harmonizing sustainable finance practices worldwide, academic literature and related International Standards.

Inclusion in this document demonstrates that a term has been widely accepted and used in the global community of sustainable finance. However, its definition has not been formally endorsed through the consensus-building process used for developing International Standards.

Each term includes at least one accessible source for its definition. Some terms refer to one or more reference sources to provide the context for the definition. To improve ease of use, the listed key sustainable finance concepts, initiatives and terms are grouped into five clauses:

— basic concepts (see Clause 4);

— principles, guidelines and regulation (see Clause 5);

— financial products and services (see Clause 6);

— verification, reporting and disclosure (see Clause 7);

— international initiatives and organizations (see Clause 8).

Additionally, the liaison ISO committees of ISO/TC 322 and standalone standards directly related to sustainable finance are listed in Annex A.

Sustainable finance — Basic concepts and key initiatives

1 Scope

This document provides a non-exhaustive list of relevant basic concepts, key initiatives and terms that are in common use in the global community of sustainable finance, and have been identified by ISO/TC 322 as helpful to facilitate a greater understanding of the topics suggested by sustainable finance practitioners, including but not limited to: financial regulators, development and commercial banks, asset managers, investors, international initiatives and researchers.

The terms included in this document have been selected because they are:

— widely accepted and used in financial markets;

— sourced from supranational organization(s) or initiative(s), or national regulatory authorities;

NOTE With priority given to the source with the larger geographic coverage.

— likely to be used in documents from ISO/TC 322 and other related International Standards;

— of international prevalence and interest.

2 Normative references

There are no normative references in this document.

3 Terms and definitions

No terms and definitions are listed in this document.

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

— ISO Online browsing platform: available at https://www.iso.org/obp

— IEC Electropedia: available at http://www.electropedia.org/

4 Basic concepts

This clause outlines the basic concepts related to sustainable finance. In some instances, one source has been cited, but in others several sources have been identified as appropriate, e.g. the term “sustainable finance” has been used in many ways and this document identifies the four most appropriate descriptions.

sustainable finance
financing as well as related institutional and market arrangements that contribute to the achievements of strong, sustainable, balanced and inclusive growth, through supporting directly and indirectly the framework of the United Nations (UN) Sustainable Development Goals (SDGs) [SOURCE: *G20 Sustainable Finance Synthesis Report*, Introduction, July 2018]
the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects [SOURCE: European Commission website. Available from [last accessed 2021-05]: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en]
application of financial services to achieve the goal of sustainability [SOURCE: PAS 7340:2020, *Framework for embedding the principles of sustainable finance in financial services organizations. Guide*, 2.26]
incorporation of environmental, social, and governance (ESG) principles into business decisions, economic development, and investment strategies [SOURCE: International Monetary Fund. *Global Financial Stability Report: Lower for Longer*, Chapter 6: Sustainable Finance, October 2019. Available from: https://www.elibrary.imf.org/view/books/082/26206-9781498324021-en/26206-9781498324021-en-book.xml?language=en&redirect=true#references]

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 20400:2017, *Sustainable procurement — Guidance*, 3.33] Further detail: — The environmental, social and economic aspects interact, are interdependent and are often referred to as the “three dimensions of sustainability”. — Sustainability is the goal of sustainable development.

Sustainable Development Goals (SDGs)
The blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. [SOURCE: UN SDGs website. Available from [last accessed 2021-03]: https://www.un.org/sustainabledevelopment/sustainable-development-goals/] Further detail: — The 17 goals are all interconnected and, in order to leave no one behind, it is important that all of them are achieved by 2030.

sustainability taxonomy
classification system identifying activities, assets and revenue segments that deliver on key sustainability goals based on the eligibility conditions set out by the taxonomy [SOURCE: PAS 7340:2020, *Framework for embedding the principles of sustainable finance in financial services organizations. Guide*, 2.24] Further detail: — Designed as a framework onto which existing (and future) definitions that are used in a variety of contexts can be mapped, enabling comparability of different standards and products. — A taxonomy is a framework that can be applied to a variety of financial instruments. — The classification system is an evolving tool that requires continuous review and updating.

green finance
financing of investments that provide environmental benefits in the broader context of environmentally sustainable development [SOURCE: G20 Green Finance Study Group. *G20 Green Finance Synthesis Report*, Summary, July 2016. Available from: http://www.g20.utoronto.ca/2016/green-finance-synthesis.pdf]
financial services provided for economic activities that are supportive of environment improvement, climate change mitigation and more efficient resource utilization [SOURCE: The People's Bank of China et al. *Guidelines for Establishing the Green Financial System* (Yinfa 2016 Doc No. 228), 2016. Available from: http://www.pbc.gov.cn/english/130721/3133045/index.html] Further detail: — These economic activities include the financing, operation and risk management for projects in areas such as environmental protection, energy savings, clean energy, green transportation and green buildings.

climate finance
local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change [SOURCE: UNFCCC Website. Available from [last accessed 2021-03]: https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance]

social finance
financing that supports actions mitigating or addressing a specific social issue and/or seeking to achieve positive social outcomes especially but not exclusively for a target population(s) [Adapted from source: ICMA. *Sustainable Finance High-level definitions*, May 2020. Available from: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainable-Finance-High-Level-Definitions-May-2020-110520v4.pdf]

microfinance
Loans, savings, insurance, transfer services and other financial products targeted at low-income clients. [SOURCE: Wegner, L. (2006), "Microfinance: How Bankers Could Buy Back Their Soul", OECD Development Centre Policy Insights, No. 31, OECD Publishing, Paris, https://doi.org/10.1787/244828638578]

blended finance
the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries [SOURCE: Wegner, L. (2006), "Microfinance: How Bankers Could Buy Back Their Soul", OECD Development Centre Policy Insights, No. 31, OECD Publishing, Paris, https://doi.org/10.1787/244828638578]

official development assistance (ODA)
government aid that promotes and specifically targets the economic development and welfare of developing countries [SOURCE: OECD website. Available from [last accessed 2021-03]: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm] Further detail: — ODA is flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions that are: a) provided by official agencies, including state and local governments, or by their executive agencies; and b) concessional (i.e. grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective. — DAC List of ODA Recipients: https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm

ESG investing (responsible investing)
strategies and practices that incorporate material ESG factors in investment decisions and active ownership with a view to minimize risks and maximize returns [SOURCE: ICMA. *Sustainable Finance High-level definitions*, May 2020. Available from: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainable-Finance-High-Level-Definitions-May-2020-110520v4.pdf] Further detail: — ESG stands for “environmental, social and governance”. — There has not been a standardized approach to evaluate ESG performance of investment portfolios, although ESG ratings, benchmarks and indices are used by investors. — Some ESG investing methodology includes “best in class/positive screening”, “negative screening/exclusionary screening”, “sustainable thematic investing”, etc., see: https://www.sustainablefinance.ch/en/glossary-_content---1--3077.html

ESG integration
explicit and systematic inclusion of ESG issues in investment analysis and investment decisions [SOURCE: PRI website. Available from [last accessed 2021-03]: https://www.unpri.org/fixed-income/what-is-esg-integration/3052.article]

socially responsible investment (SRI)
investing with the aim of achieving financial returns while respecting specific ethical, environmental and/or social criteria [SOURCE: ICMA. *Sustainable Finance High-level definitions*, May 2020. Available from: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainable-Finance-High-Level-Definitions-May-2020-110520v4.pdf]

impact investment
investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return [Adapted from source: GIIN website. Available from [last accessed 2021-03]: https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing]

green technology (environmental technology)
technology that has the potential to significantly improve environmental performance relative to other technology [SOURCE: UN ESCAP. *Low Carbon Green Growth Roadmap for Asia and the Pacific: Fact Sheet – Green Technology*, January 2012. Available from: https://www.unescap.org/sites/default/files/34.%20FS-Green-Technology.pdf]

greenwashing
the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact it does not meet basic environmental standards [SOURCE: Technical expert group on sustainable finance (TEG). *Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment – Approval of the final compromise text*, December 2019. Available from: https://data.consilium.europa.eu/doc/document/ST-14970-2019-ADD-1/en/pdf]

sustainable supply chain

incorporate eligibility requirements, based on sustainability standards, into contractual relationships with suppliers

Further detail:

— By explicitly factoring social, environmental, and governance criteria upstream, where raw materials are processed, and downstream to the consumer, purchasers and their suppliers can reduce operational risks, maintain profitability, and meet the growing demand for organic, certified and sustainably produced goods.

[SOURCE: IFC. *Sustainable Finance Opportunities: Sustainable Supply Chain Finance*, 2006. Available from: https://www.ifc.org/wps/wcm/connect/eea816de-4b76-4d5b-b607-665bfe5e6ac8/FMS-EO-SupplyChain.pdf?MOD=AJPERES&CVID=jkCUlzt]

sustainable infrastructure

infrastructure projects that are planned, designed, constructed, operated, and decommissioned in a manner to ensure economic and financial, social, environmental (including climate resilience), and institutional sustainability over the entire life cycle of the project

[SOURCE: Inter-America Development Bank, *What is Sustainable Infrastructure*, March 2018. Available from: https://publications.iadb.org/publications/english/document/What_is_Sustainable_Infrastructure__A_Framework_to_Guide_Sustainability_Across_the_Project_Cycle.pdf]

environmental costs

costs connected with the actual or potential deterioration of natural assets due to economic activities

[SOURCE: OECD Statistics Portal website. Available from [last accessed 2021-03]: https://stats.oecd.org/glossary/]

greenhouse gas emission reduction (GHG emission reduction)

quantified decrease in GHG emissions between a baseline scenario and the GHG project

[SOURCE: ISO 14064-2:2019, *Greenhouse gases — Part 2: Specification with guidance at the project level for quantification, monitoring and reporting of greenhouse gas emission reductions or removal enhancements*, 3.1.7]

Further detail:

— Greenhouse gas (GHG): gaseous constituent of the atmosphere, both natural and anthropogenic, that absorbs and emits radiation at specific wavelengths within the spectrum of infrared radiation emitted by the Earth's surface, the atmosphere and clouds.

— Baseline scenario: hypothetical reference case that best represents the conditions most likely to occur in the absence of a proposed GHG project.

— GHG project: activity or activities that alter the conditions of a GHG baseline and which cause GHG emission reductions or GHG removal enhancements.

carbon pricing

to put a price on carbon pollution as a means of bringing down emissions and drive investment into cleaner options

[SOURCE: World Bank Website. Available from [last accessed 2021-03]: https://www.worldbank.org/en/programs/pricing-carbon#CarbonPricing]

Further detail:

— There are two main types of carbon pricing: emissions trading systems (ETS) and carbon taxes.

carbon credit

tradable certificate or permit that represents the right to emit a specified amount of greenhouse gases

[SOURCE: ISO 6707-3:2017, *Buildings and civil engineering works – Vocabulary – Part 3: Sustainability terms*, 3.6.20]

Further detail:

— The unit of one carbon credit is equal to one tonne of carbon dioxide emissions.

— Allows an organization to benefit financially from an emission reduction.

carbon offsetting

mechanism for compensating for all or for a part of the carbon footprint of a product or the partial carbon footprint of a product through the prevention of the release of, reduction in, or removal of an amount of greenhouse gas emissions in a process outside the product system under study

[SOURCE: ISO 14050:2020, *Environmental management – Vocabulary*, 3.11.5]

Further detail:

— Carbon footprint is the net amount of GHG emissions and GHG removals, expressed in CO_2 equivalents.

emissions trading system (ETS)

system whereby the government imposes a limit (cap) on the total emissions in one or more sectors of the economy, and it issues a number of tradable allowances not exceeding the level of the cap

[SOURCE: World Bank website. Available from [last accessed 2020-08]: https://www.worldbank.org/en/programs/pricing-carbon]

Further detail:

— The advantage of an emissions trading system is that it permits compliance flexibility, allowing each source to make a tailored choice in order to meet the target limit for emissions.

— There are two main types of trading systems: a) cap-and-trade systems, and b) baseline-and-credit systems. In a cap-and-trade system, an upper limit on emissions is fixed, and emission permits are either auctioned out or distributed for free according specific criteria. Under a baseline-and-credit system, there is no fixed limit on emissions, but polluters that reduce their emissions more than they otherwise are obliged to can earn “credits” that they sell to others who need them in order to comply with regulations they are subject to.