HIGH MEADOWS
INSTITUTE

Bank Investor Engagement Project

Governance of Banks: A Summary of Findings

Disclaimer: All research in this document is based solely on publicly available information and was collected by or before February 2022.

Assessment Indicators

	Initiatives	Literature
Background	• AUM • Members/Signatories • Description	• Type of work (e.g. blog, essay, etc.) • Institutions • Author
Recommendations	• Does it talk about governance of banks? • Does it give any recommendations? • Does it focus on specific issues? • What are the specific recommendations? • Do the recommendations improve existing frameworks or are they innovative/daring?	

Key Findings

Of 7 recommendations (4 initiatives and 4 literature) reviewed:

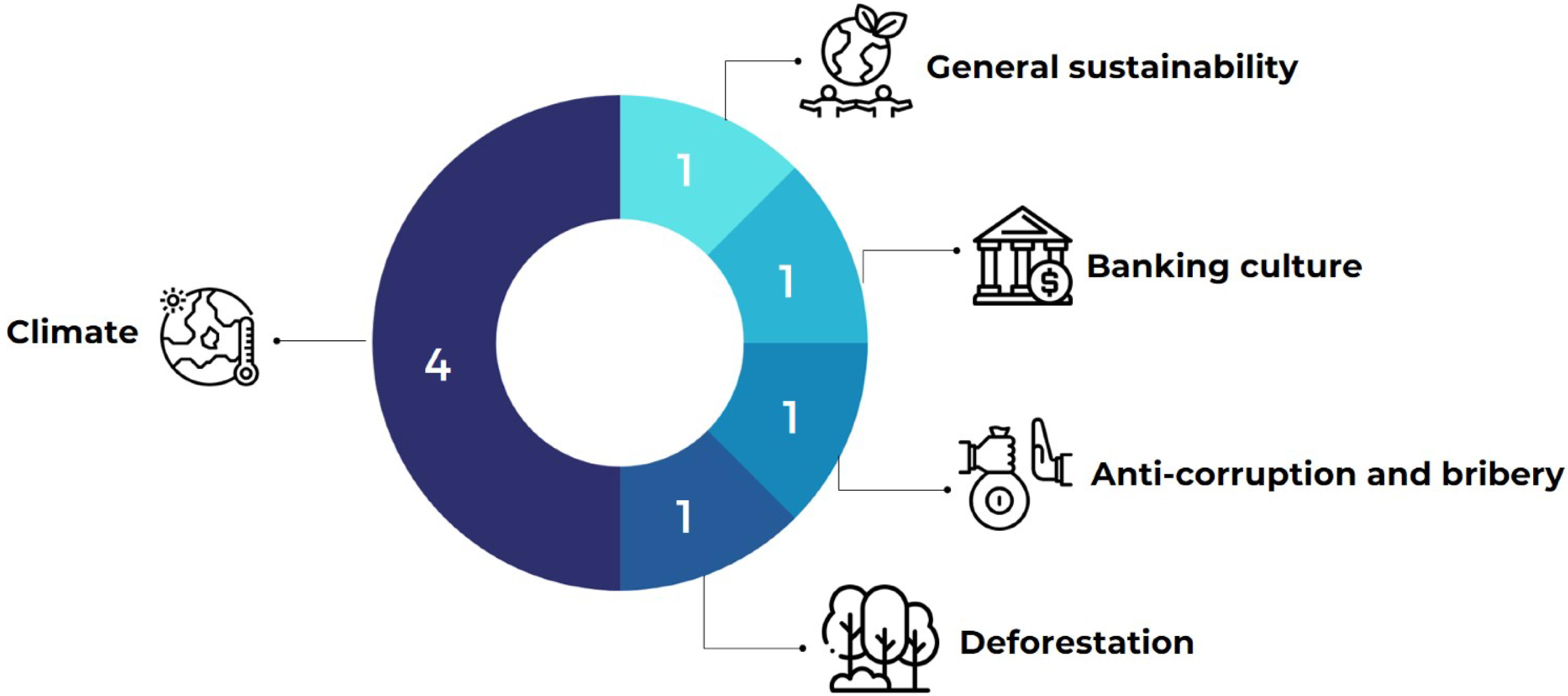
Focus area

- **Most focus on improving governance structures for effective climate-related risk management**
- **One has a focus area in addressing deforestation**
- **One focuses on developing and maintaining good banking culture and conduct to restore public trust and reputation of banks (after 2008-09 financial crisis)**

Novelty

- **Most build on existing frameworks e.g. Basel Committee on Banking Supervision's Corporate Governance Principles for Banks, OECD Corporate Governance Principles, etc.**

Focus area


General sustainability
Banking culture
Anti-corruption and bribery
Deforestation
Climate
4
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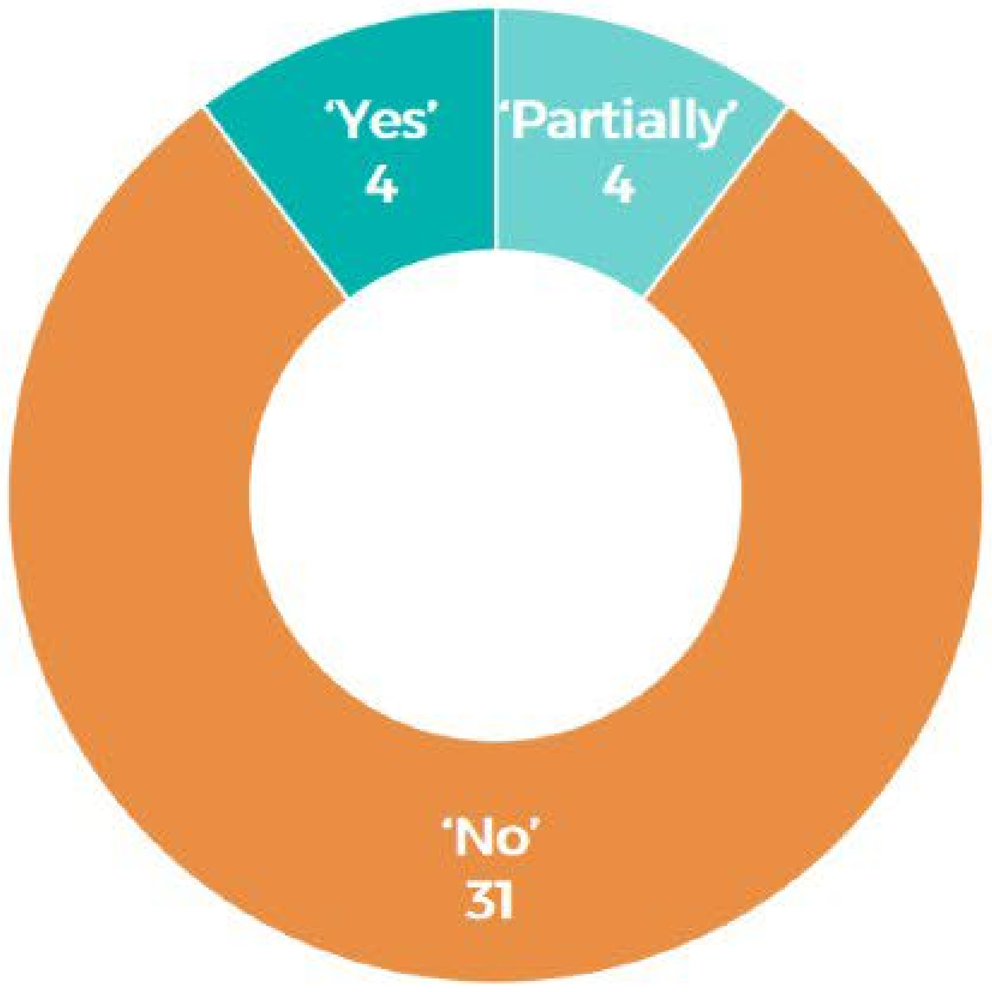
Banking Initiatives

Initiatives on banks' governance

Initiative	Does it talk about Governance?
The Wolfsberg Group	Y
UNEP FI Principles for Responsible Banking	Y
The Banking Environment Initiative (BEI)	Y
RMA Climate Risk Consortium	Y
Partnering for Racial Justice in Business	P
Net-Zero Banking Alliance	P
Global Alliance for Banking on Values	P
UN Global Compact	P
Climate Action 100+	N
Sustainable Markets Initiative's (SMI) Financial Services Taskforce (F	N
UNEP FI Signatories on Covid-19	N
Think Forward Inititative (TFI)	N
Global Partnership for Financial Inclusion (GPFI)	N
Second Chance Business Coalition	N
UN Standards of Conduct for Business	N
Parnership for Global LGBTI Equality (PGLE)	N
Banking for Impact	N
The Global Business Collaboration for Better Workplace Mental Hea	N
The Climate Group	N

Only **4 initiatives** talk about Governance of banks.



'Partially' means that governance aspects of the initiatives are not thorough enough to extract any recommendations from.

UNEP FI
Principles for Responsible Banking

Founded	2019
AUM	US$ 72trn
Members	275

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

The Principles for Responsible Banking are a framework for ensuring that Signatory banks' strategy and practice align with SDGs and the Paris Climate Agreement. Signatory banks commit to embedding these 6 principles across all business areas, at the strategic, portfolio and transactional levels.

PRINCIPLE 1:
ALIGNMENT

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

PRINCIPLE 2:
IMPACT & TARGET SETTING

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

PRINCIPLE 3:
CLIENTS & CUSTOMERS

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

PRINCIPLE 4:
STAKEHOLDERS

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

PRINCIPLE 5:
GOVERNANCE & CULTURE

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

PRINCIPLE 6:
TRANSPARENCY & ACCOUNTABILITY

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

- **UNEP FI issued PRB Guidance Document to support the implementation of the Principles.**
- **This guidance document is non-binding to banks on measures they can take to implement each Principle.**
- **Recommendations on banks' governance are provided for Principle 5: Governance & Culture *(see the next slide)***

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UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

Recommendations

Principle 5: Requirements set out in the Framework Documents

Banks are required to develop governance structures that enable and support effective implementation of the Principles. This includes having appropriate structures, policies and processes in place to manage its significant impacts and risks, and achieve its targets. Your bank will also be required to disclose measures it is implementing to foster a culture of responsible banking among its employees.

How your bank can work towards Principle 5:

- ✓ Assign clear and specific roles and responsibilities at the Board level and across all functions of your bank regarding your bank's sustainability agenda and provide adequate resource allocation.
- ✓ Build internal expertise on the environmental, social and economic topics relevant to your bank's context, such as climate change, deforestation, pollution, biodiversity, human rights, gender equality, by recruiting specialists supplemented with training of staff on ESG strategies, policies and tools, including providing external guidance through consultants to inform and educate staff.
- ✓ Set up a dedicated, specialized team of sustainability experts (e.g., a corporate sustainability department) with strong leadership and clear roles and responsibilities, to facilitate sustainable finance and the implementation of the Principles across all functions of your bank.
- ✓ Establish appropriate policies, systems and procedures with effective management systems and controls, including risk, compliance and third-party assurance procedures.
- ✓ Integrate sustainability objectives and targets into decision making processes across your bank. Regularly review existing management systems and processes to assess whether these need to be modified or strengthened to enable your bank to deliver on its sustainability-related goals.

UNEP FI
Principles for Responsible Banking

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UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

Recommendations

How your bank can work towards Principle 5 *(continued)*:

- ✓ Formally include sustainability criteria into the Terms of Reference or Charter for your Board's nomination, remuneration and audit committees or create a dedicated Board Committee focused on sustainability and responsible banking.
- ✓ Integrate sustainability into a clearly communicated statement linking environmental and social issues to the vision and mission of your bank, with clear C-suite endorsement.
- ✓ Embed your bank's sustainability targets into its remuneration and incentive as well as its performance management systems. Reward strong sustainability performance and leadership, for example, through promotion decisions.
- ✓ Communicate internally and externally (see Principle 6) on your bank's sustainability approach and performance. Actively communicate top-level buy-in from CEOs and the C-suite with statements, quotes and interviews in internal and external media, and regularly address sustainability-related topics to raise awareness, understanding, knowledge and interest among staff.
- ✓ Educate and train employees on your bank's sustainability strategy and targets in general, and in particular on sustainability issues pertaining to their respective area of work to develop appropriate awareness and expertise at all levels.
- ✓ Embed sustainability values and ethos into day-to-day operations of your bank and its culture through policies, processes and everyday practices such as gender equality and pay equity, climate-friendly transport options, sustainable and inclusive procurement practices, etc.
- ✓ Build an internal community of sustainability champions that includes all the employees who have clear contribution and responsibility towards the achievement of your sustainability goals and targets. Manage and strengthen this community with frequent engagements, such as webinars, meetings and seminars, and newsletters. Honor and publicly recognize sustainability leaders.
- ✓ Align lending policies with scientific and robust approaches, which may be developed via a multi-stakeholder process. Where available, use sustainability standards and certification systems developed via multi-stakeholder processes such as the ISO and ISEAL standards.

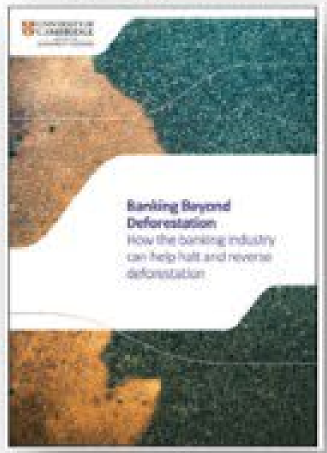
CISL's Banking Environment Initiative

Founded	2010
AUM	NA
Members	17

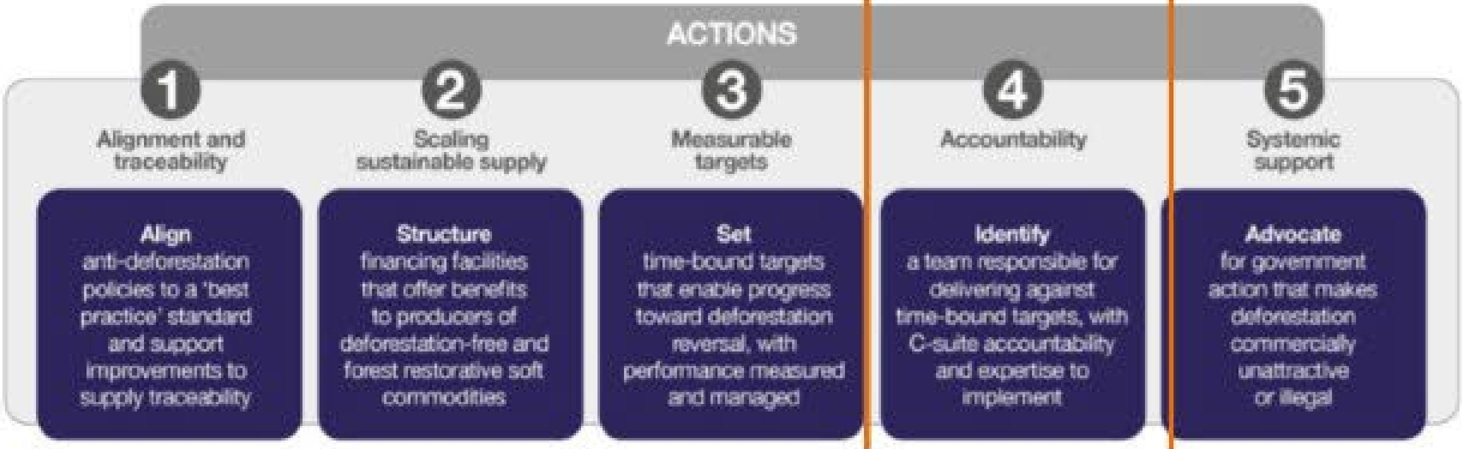
Banking Environment Initiative

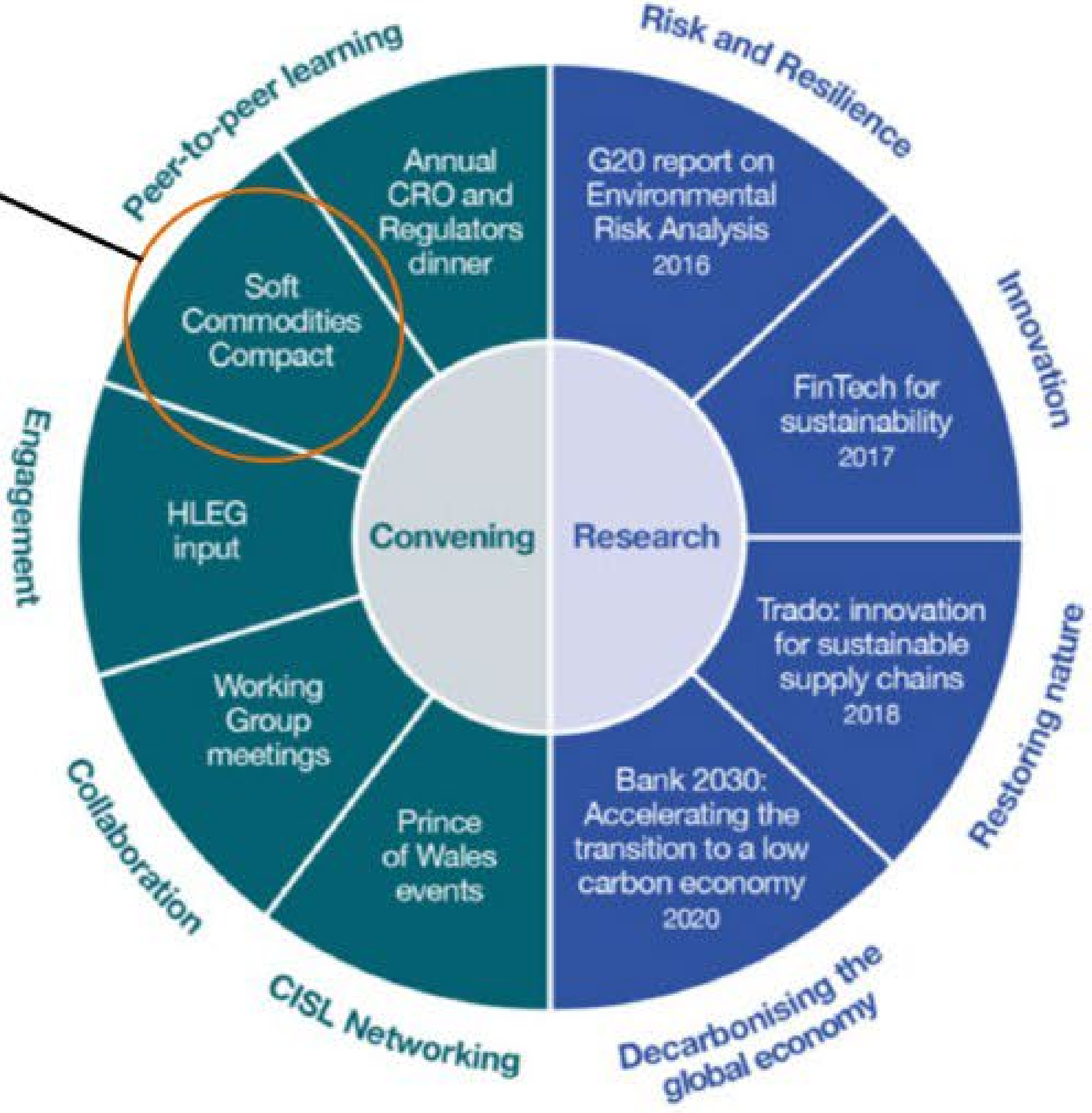
The Cambridge Institute for Sustainability Leadership (CISL)'s Banking Environment Initiative (BEI) is a group of global banks committed to pioneering actionable pathways towards a sustainable economy. The BEI co-produces horizon scanning applied research, develops leadership tools and convenes academic and industry collaborations.

Soft Commodities Compact is a sub-initiative between BEI's bank members and Consumer Goof Forum (CGF). In support of GCF's 2010 resolution on zero net deforestation, banks in the Compact set out to reduce deforestation by 2020.



- **To conclude the Compact, CISL proposes 5-step Action Plan that banks can take to help halt and reverse deforestation.**
- **Recommendations on banks' governance are provided for Action 4 (see the next slide), which focus only on the roles and responsibilities.**





CISL's
Banking Environment Initiative

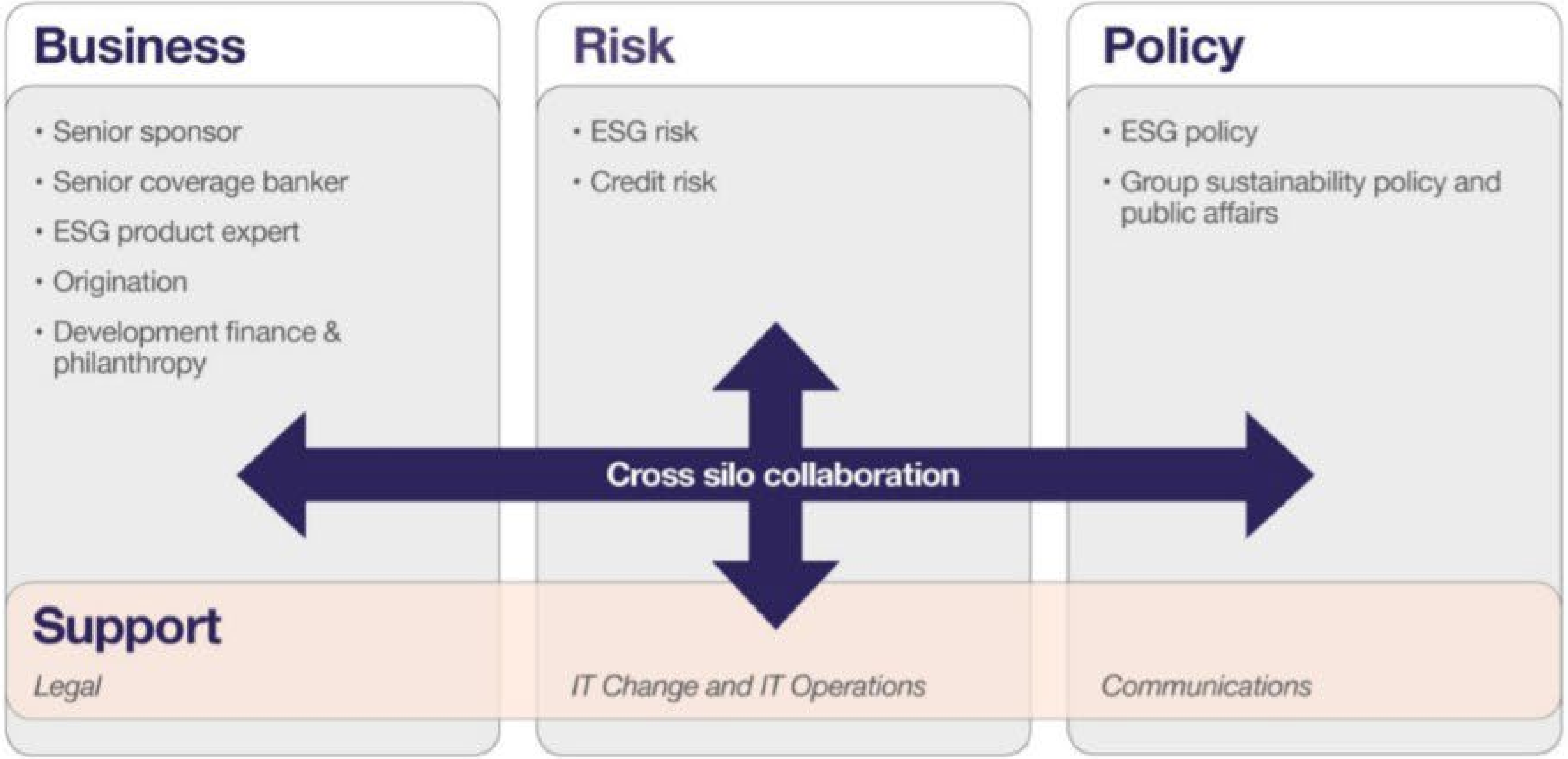
Founded	2010
AUM	NA
Members	17

Banking Environment Initiative

Recommendations

Action 4: Identify a team responsible for delivering time-bound targets, with C-suite accountability and expertise to implement

Just as a variety of banks and stakeholders are needed to take actions that reverse deforestation, so a diverse range of skills within banks is needed to implement those actions. Based on observations during the 'Soft Commodities' Compact, CISL suggest the following roles within implementation teams:



CISL's Banking Environment Initiative

Founded	2010
AUM	NA
Members	17

Banking Environment Initiative

Recommendations

Roles within suggested implementation teams

✓ **C-suite sponsor**
Drawn from the Executive Management Board to ensure accountability at the highest level for making progress toward the Key Results specified in Action 3.

✓ **Senior coverage banker**
Responsible for overseeing relationship managers' engagement with clients in soft commodities supply chains, including supporting client transitions away from deforestation risk. To tackle the challenge of transitioning carbon intensive sectors, some leading banks have a senior coverage banker overseeing those responsible for client engagement. Such a role and responsibilities could also be created to support client transitions in soft commodity supply chains.

✓ **ESG solutions**
Some banks have begun to develop ESG solution teams. These groups are empowered to scale financing to support sustainability objectives, such as those suggested in this paper. Product area expertise could include:

1. Trade finance
2. Revolving credit facilities
3. Term loans
4. Project financing
5. Microfinance or small project securitisation, to enable aggregation of producer
6. financing to the landscape level so it can be marketed to capital markets
7. Bond or fund structuring, e.g. sustainability bonds (covered, senior unsecured, etc.)
8. Blended finance

✓ **ESG risk and policy**
An individual with responsibility for the design, update and implementation of the soft commodities sector and anti-deforestation policies across the bank.

✓ **IT Change and IT Operations**
Individuals capable of ensuring the shared data vault connects to existing data architecture and visa-versa.

CISL's
Banking Environment Initiative

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Members	17

Banking Environment Initiative

Recommendations

Roles within suggested implementation teams *(continued)*

✓ **Legal**
Member of the legal team capable of ensuring that the collaborative action complies with applicable laws. Empowered to sign off positions without introducing referral delays.

✓ **Credit risk**
Drawn from the team responsible for TCFD implementation or climate risk modelling and placed within the credit risk team, this individua ensures that the data gathered in the shared data vault becomes useful over time in the credit risk framework. The hypothesis is that the risk profile of clients aligned with anti-deforestation standards improves.

✓ **Group sustainability policy**
Member from this team ensures that group policy positions, and the global alliances that the bank is a part of, make the Key Results in Action 3 easier to achieve.

✓ **Communications**
Individual responsible for promoting the successes of the collaborative action internally and externally.

✓ **Origination / Capital markets**
Someone with visibility of institutional clients interested in green finance opportunities. Sitting in-between the coverage bankers and product/structuring team, the individual will make sure the financing proposition is attractive to enough investors.

✓ **Development finance and philanthropy**
An individual with a working level relationship with development finance institutions and philanthropic foundations so they can be plugged into any blended, concessional producer financing structures distributing financial benefits.

The Wolfsberg Group's Anti-Bribery and Corruption

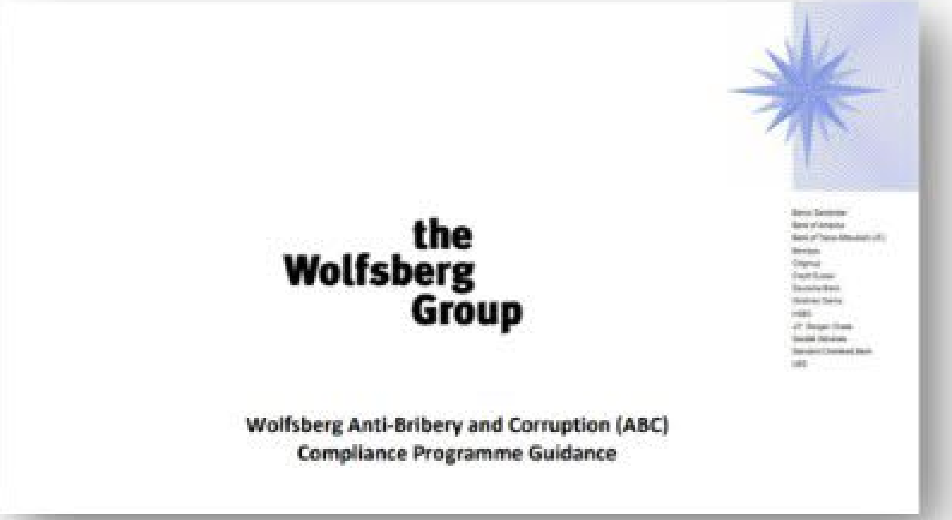
Founded	2000
AUM	NA
Members	13

the Wolfsberg Group

The Wolfsberg Group is an association of thirteen global banks which aims to develop frameworks and guidance for the management of financial crime risks.

Wolfsberg Group Standards

- Wolfsberg Group Tax Evasion Guidance 2019
- Wolfsberg Group Trade Finance Principles 2019
- Wolfsberg Group Sanctions Screening Guidance 2019
- Wolfsberg Group Payment Transparency Standards 2017
- Wolfsberg Group Anti-Bribery & Corruption Guidance 2017
- Wolfsberg Group PEP Guidance 2017
- Wolfsberg Group Publication Statement on PEPs 2017
- Wolfsberg Group SWIFT Relationship Management Application Due Diligence Guidance 2016
- Wolfsberg Anti-Money Laundering Principles for Correspondent Banking 2014



- **One of The Wolfsberg Group's guidances is 'Wolfsberg Anti-Bribery and Corruption (ABC) Compliance Programme Guidance'.**
- **One of key elements in ABC Programme is Governance which sets a standard of behaviour to achieve a culture of ethical business practices and compliance with ABC legal and regulatory requirements.**

The Wolfsberg Group's Anti-Bribery and Corruption

Founded	2000
AUM	NA
Members	13

the Wolfsberg Group

Recommendations

The banks' ABC Programme should be overseen by Senior Management, administered by an individual with sufficient authority, expertise and resources and endorsed by the board of directors ("Board") or equivalent body.

Roles and Responsibilities:

✓ **Senior Management:**
A member of the firm's Senior Management should have oversight responsibility for the Programme and the firm should allocate sufficient resources to achieve reasonably effective operations. Periodic Programme updates and material issue reporting should be made to the Executive Board or equivalent body and the Board of Directors or an appropriate committee of the Board.

✓ **Programme Lead:**
The Programme should be led by an independent unit within the FI with the requisite expertise and authority. This unit should be part of a control function such as Compliance, Legal or Risk.

✓ **Lines of Business/Corporate Functions:**
The bank's business personnel should have primary responsibility for achieving compliance with the established Programme requirements.

The Wolfsberg Group's Anti-Bribery and Corruption

Founded	2000
AUM	NA
Members	13

the Wolfsberg Group

Recommendations

Internal Reporting:

- ✓ Relevant data should be collected to assist Senior Management in assessing the effectiveness of the Programme.
- ✓ The status of material internal investigations into alleged corruption should also be reported to Senior Management in coordination with the bank's Legal Department, as appropriate.
- ✓ A bank's Board of Directors or a Board committee should receive periodic updates as to the effectiveness of the Programme and any material matters requiring Board's attention.

Independent Review:

It is important for banks to review and test the control structure to determine whether controls are working in practice. The adequacy of the Programme should therefore be tested and verified by an independent function such as internal audit or a controls testing team that is separate from the Programme Lead. Consideration may also be given to having the adequacy of the Programme tested and verified by external organisations (e.g. accounting or law firms).

On the horizon

Climate Risk Consortium

Climate Risk Consortium (CRC) is a bank industry-led alliance set up by the Risk Management Association (RMA), which consists of 17 of the largest North American banks. CRC aims to develop standards for banks to integrate climate risk management throughout their operations.

2022 Climate Risk Consortium Initiatives:

- ❑ Governance:
  Helping banks develop a climate risk strategy, including risk appetite, training, policies, and Board assessments.
- ❑ Disclosure:
  Communicating in a common voice to regulators and assessing/preparing for regulatory disclosures.
- ❑ Risk Management:
  Developing common metrics and targets for reporting and benchmarking; organizational design for scenario analysis and stress testing.

Literature Review

Guide for Supervisors Integrating climate-related and environmental risks into prudential supervision

Type	Guideline
Author	Network for Greening the Financial System
Year	2020

This document provides guidelines for **supervisory authorities** to integrate climate-related risks into their work, which include setting out **expectations on effective Governance of banks they supervise**. In general, supervisors should expect banks to clearly define and allocate **responsibilities** in managing climate-related risks within existing governance arrangements. Below is the summary of recommendations:

Recommendations:

✓ **Board-level commitment:**
Supervisors should expect banks to explicitly assign responsibility for managing climate-related and environmental-related risks to a senior executive, a board member or board committee. In conducting the "fit and proper" test when approving appointments of board members, senior management and/or key functions (e.g. Chair of Risk Committee, Chief Risk Officer, etc.), supervisors could assess experience on climate-related risks, which could be gained during previous occupations or academic assignments.

✓ **Remuneration policies:**
Supervisors could expect banks' remuneration policies to provide incentives aligned with the strategy and management of climate-related and environmental risks.

✓ **Policies and procedures:**
Supervisors could expect banks to have policies, procedures, and processes in place that ensure that the various business lines and relevant functions are attributed clear roles and responsibilities within the climate-related and environmental-risk management framework.

✓ **Resources and expertise:**
Supervisors could expect banks to ensure that responsible units have adequate resources and expertise, while acknowledging that the required expertise needs to be built up and strengthened.

Principles for the effective management and supervision of climate-related financial risks

Type	Guideline
Author	Basel Committee on Banking Supervision
Year	2021

This guideline is developed by Basel Committee on Banking Supervision (BCBS), which essentially was built on the existing frameworks (Core principles for effective banking supervision (BCPs), the supervisory review process (SRP), and Corporate governance principles for banks), to provide guidelines on effective climate-related financial risks management of banks and banking supervision. The guideline consists of 18 high-level principles, with Principles 1 through 12 are provided for banks while the rests are for prudential supervisors. Our of 12 Principles, Principles 1-3 cover governance issues.

Recommendations:

Principle 1: ***Banks should develop and implement a sound process for understanding and assessing the potential impact of climate-related risk drivers on their businesses and on the environments in which they operate. Banks should consider material climate-related financial risks that could manifest over various time horizons and incorporate these risks into their overall business strategies and risk management frameworks. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]***

- **Banks should take material physical and transition risk drivers into consideration when developing and implementing their business strategies. The board and senior management should be involved in all relevant stages of the process and the approach established by the board should be clearly communicated to the banks' managers and employees**

Principle 2: ***The board and senior management should clearly assign climate-related responsibilities to members and committees and exercise effective oversight of climate-related financial risks. The board and senior management should identify responsibilities for climate-related risk management throughout the organisational structure. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]***

- **Clear assignment of responsibilities for managing and oversight of climate-related financial risks among members and committees.**
- **Banks should ensure that the board and senior management have an adequate understanding of climate-related financial risks and that senior management is equipped with the appropriate skills and experience to manage these risks. Capacity building might be needed**

Principles for the effective management and supervision of climate-related financial risks

Type	Guideline
Author	Basel Committee on Banking Supervision
Year	2021

Recommendations (continued):

Principle 3: ***Banks should adopt appropriate policies, procedures and controls to be implemented across the entire organisation to ensure effective management of climate-related financial risks. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]***

- **Management of climate-related financial risks should be embedded in policies, processes, and controls across all relevant functions and business units.**

Strengthening corporate governance for a greener financial sector

Type	Blog
Author	The World Bank
Year	2021

The article provides recommendations around governance structures of banks from the perspective **of supervisory authorities** (prudential supervision authorities). Building on the existing international supervisory guidance–the Basel Committee's Core Principles for Effective Banking Supervision and the Corporate Governance Principles for Banks, Below are key recommendations on what **expectations supervisors could set out for banks**:

Recommendations:

✓ **Board of Directors' composition:**

- **Supervisors could expect that banks' boards include members with experience on climate-related financial risks. International regulation emphasizes the linkage between board qualification and the ability to exert an effective oversight over banks' business. Depending on the banks' risk profile, the boards' collective suitability would benefit from expertise around the financial risks arising from climate change. Supervisor authorities could expect that banks' boards understand the financial risks arising from climate change that affect the banks.**
- **In conducting the "fit and proper" test, supervisors could assess experience on climate-related risks, which could be gained during previous occupations or academic assignments.**

✓ **Board involvement in climate-related risks:**

- **Supervisors could expect that banks' boards of directors consider climate-related financial risks when approving the banks' strategy. Climate-related risks should also be considered by banks' board of directors when approving the bank's risk appetite framework. Since climate change might alter the aggregate level and types of risks that a bank is willing to accept or to avoid in order to achieve its business objectives, it appears appropriate that banks' risk appetite statements (i) identify sectors exclusion policies, (ii) take into account the results of stress tests on climate-related risks, and (iii) consider the uncertainties around the timing and the channels through which the climate-related financial risks may materialize.**
- **Supervisors might require banks' boards of directors to approve policies and procedures on climate-related financial risks and review them on an annual basis. Policies and procedures would embed climate change in the risk management metrics, the internal control framework, and the decision-making process.**

Strengthening corporate governance for a greener financial sector

Type	Blog
Author	The World Bank
Year	2021

Recommendations *(continued)*:

- ✓ **Bank's remuneration policies and practices::**
  - **supervisory authorities could expect that banks' remuneration policies and practices stimulate behaviour consistent with managing climate-related financial risks.**
- ✓ **Boards' oversight:**
  - **supervisory authorities could expect that banks' boards exert adequate oversight over climate-related risks. Banks' boards might need to identify and allocate responsibility to a sufficiently senior representative within the organization, ensuring that adequate resources and sufficient skills and expertise are devoted to managing the financial risks from climate change in the relevant business lines.**

Banking Conduct and Culture: A Permanent Mindset Change

Type	Guideline
Author	G30 Working Group
Year	2018

2008-09 global financial crises has put banking culture and conduct under the global spotlight. Banks have since suffered from loss of public trust and negative reputation. This document provides recommendations on how banks can develop and sustain the right culture to restore trust and reputation. Some of the recommendations touch upon governance issues of banks. Below is the summary of the recommendations on banks' governance:

Recommendations:

✓ **The board should re-evaluate its governance structure to ensure one specific and dedicated board committee has oversight of the bank's conduct and culture. This requires:**

- **Setting the right tone**
- **Devoting time to culture and conduct matters**
- **Being satisfied with the tone set by the CEO and senior leadership**
- **Periodically reviewing how conduct breaches are dealt with**
- **Watching for signs about the effectiveness (or ineffectiveness) of the bank's work to put in place and sustain the desired culture.**

✓ **Bank boards and senior management should work more closely with various business units and with geographic and functional heads to strengthen the quality and availability of data and insights needed to manage conduct and culture.**

✓ **Banks should incorporate nonfinancial performance measurements (for example, conduct, customer outcomes, assessment against firm values) into their remuneration schemes, and ensure that serious shortfalls in such areas can result in material reductions in compensation, career progression and, where necessary, termination.**

✓ **Banks should remove the link between quantitative sales targets and compensation for sales staff to minimize pressure that can lead to misconduct and help staff prioritize meeting customer/client needs.**

✓ **Banks should explore ways to celebrate role models in behaviour, both in business decisions and in individual actions. Effective positive reinforcement should focus not just on rewards, per se, but should specify which of the organization's values were demonstrated in each particular instance**