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Item 03 – GRI Sector Standards Project for Financial Services – Draft project proposal

For GSSB approval

Date	4 October 2022
Meeting	18 & 19 October 2022
Description	This document sets out the draft project proposal to develop Sector Standards for the banking, insurance and capital markets sectors respectively, for Global Sustainability Standards Board (GSSB) discussion and approval to send to the GRI Board and Stakeholder Council for feedback. The proposal is that these sectors have three separate Standards developed within the bounds of one project. This responds to the commonality of these sectors as financial asset holders and investors in other sectors, and the need to take a consistent approach to reporting on impacts that are relevant to an organization as a result of this type of business relationships. After feedback from the GRI Board and Stakeholder Council has been received and incorporated, the Standards Division will present the proposal to the GSSB for final approval, in accordance with the Due Process Protocol. **Please note**: the development and submission of this draft project proposal marks the intention for the GRI Sector Standards Project for Banking, Insurance and Capital Markets to be next to commence under the GRI Sector Program. The commencement date of this project has not been determined and is subject to the resource availability.

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Project background

In February 2019, the Global Sustainability Standards Board (GSSB) approved the GRI Sector Program to improve clarity and consistency in sustainability reporting. The pilot projects, *GRI 11: Oil and Gas Sector 2021, GRI 12: Coal 2022 and GRI 13 Agriculture, Aquaculture and Fishing 2022,* have been released and a fourth Sector Standard, for mining, is under development. The GSSB approved two other projects, for food and beverages, and for textiles and apparel, in February 2022.

Banking, insurance, and asset management (now referred to as capital markets) are the next sectors in line to have a Standard developed, according to the list of sectors approved by the GSSB in November 2020.

The Standards Division recommends producing three separate standards for banking, insurance, and capital markets under a single project, titled 'GRI Sector Standards Project for Financial Services'.

Banking, insurance, and capital markets carry out distinct activities and operate under different regulatory regimes; for this reason, each sector should be given enough room to tailor the reporting recommendations to its own needs.

At the same time, the impacts that they contribute to, through their holding of financial assets, are similar and should be consistently reported across the three sectors. This is the key reason to recommend the development of the three sector standards under one single project.

The stakeholder expectations are also very similar across the three sectors, and even the institutions in which these stakeholders organize themselves usually cover all the financial services industry.

Sector overview

Financial services organizations are intermediaries between all other economic actors, channeling money from savers to borrowers, facilitating payments and matching people who want to lower risk with those willing to take on that risk.

The financial services industry is a substantive part of the economy in its own right; it contributes about 5% of GDP in the European Union and more than 8% in the United States. But its real importance lies in its central position in the economy, in which few activities could function without credit, insurance, capital markets or payment services.

Divisions within the financial services

There is a range of different sub-sectors and activities within financial services. There is no single classification that captures all this variety, partly because the criterion to differentiate one activity from the other is often rooted in regulations that change from country to country and evolve over time. There is also a fair amount of integration between the sectors, with many of the largest asset managers owned by either banks or insurance companies.

It is proposed to divide the financial services industry into three sectors: banking, insurance, and capital markets. While the first two are perceived as individual sectors by most stakeholders, there is less agreement that the organizations grouped under capital markets belong together to a unified sector. The recommendation from the Standards Division is based on similar sustainability impacts, and the way organizations in these sectors are involved with these impacts, namely through investment in other sectors.

Below there is a detailed description of each of the three sectors, however, the scope and name of these standards may deviate from this proposal following recommendations from the technical committees.

Banking

Banks are institutions that mainly take in deposits and make loans available. Consumer finance organizations - including credit card services, mortgage lenders, microfinance institutions and personal and student loan services - are also included into this sector.

Investment banks are not included in the banking sector but will be covered within the scope of the capital markets sector.

There are more banks than other financial institutions; they are also larger on average and have a higher public profile. Banks are the organizations that most people deal with when in need of financial services and, therefore, have substantial, direct impacts on the welfare of most people.

Table 1: Proposed sector key for the banking sector standard

Classification Standard	Classification No.	Classification Name
GICS®	4010	Banks
ICB	3010	Banks
	30201020	Consumer lending
	30201025	Mortgage finance
ISIC	641	Monetary intermediation
	6491	Leasing
	6492	Other credit granting
SICS®	FN-CB	Commercial Banks
	FN-CF	Consumer Finance
	FN-MF	Mortgage Finance

Note: Tables 1, 2 and 3 lists the relevant classifications from external classification standards, specifically the International Standard Industrial Classification of All Economic Activities (ISIC), Industry Classification Benchmark (ICB), Global Industry Classification System (GICS), and SICS Sustainable Industry Classification System® (SICS®)[1].

Insurance

Insurance organizations offer risk management in form of insurance contracts.

The insurance sector will include life insurers, health insurers, property, casualty and accident insurers, and reinsurers. Insurance intermediaries, such as agencies and brokers, while not providing insurance policies themselves, can have a large impact in the way the insurance sector operates, and they are included into this sector.

[1] Sustainable Industry Classification System® or SICS® is the classification system of SASB.

Insurance organizations can have distinct sustainability impacts because of the specific nature of their product. They can help or hinder the development of certain activities by changing the conditions under which they offer insurance. Their business model is directly affected by the physical effects of climate change.

Table 2: Proposed sector key for the insurance sector standard

Classification Standard	Classification No.	Classification Name
GICS®	4030	Insurance
ICB	3030	Insurance
ISIC	651	Insurance
	652	Reinsurance
	662	Activities auxiliary to insurance and pension funding
SICS®	FN-IN	Insurance

Capital markets

Organizations in this sector are concerned with the allocation of capital across the economy. This sector is composed of asset owners, such as pension funds or sovereign wealth funds, asset managers who make investment decisions on behalf of customers, and other organizations who provide services to these institutions, such as market operators, custodians, data providers, and rating agencies. Investment banks are included in this sector.

Table 3: Proposed sector key for the capital markets sector standard

Classification Standard	Classification No.	Classification Name
GICS®	402040	Capital Markets
	402030	Mortgage Real Estate Investment Trusts (REITs)
	4020	Diversified Financials
ICB	302020	Investment Banking & Brokerage Services
	302030	Mortgage Real Estate Investment Trusts
	302040	Equity Investment Instruments
	302050	Nonequity Investment Instruments
	30201030	Financial data and systems
ISIC	642	Holding companies
	643	Trusts
	6499	Other financial services activities
	653	Pension funds

	6611	Administration of markets
	6612	Brokerage
	6619	Other activities auxiliary to financial services
	663	Fund management
SICS®	FN-AC	Asset Management & Custody Activities
	FN-EX	Security & Commodity Exchanges
	FN-IB	Investment Banking & Brokerage

Table 3 captures the variety of organizations that fall under this sector. The key criterion to group these organizations is that their main sustainability impact happens through the provision of capital to other economic sectors. Asset owners and managers take decisions on the allocation of capital towards more or less sustainable activities. Service providers like investment banks or rating agencies facilitate these decisions and can therefore have an impact on the sustainability of the allocation of capital.

Banks and insurers also have substantial sustainability impacts through capital allocation to other activities and this will need to be treated consistently across the three financial services sectors. This is the key reason why the Standards Division proposes to develop the three standards under a single process.

Sustainability impacts

The key criterion for prioritizing sectors is their sustainability impacts. This takes into account the significance of the sector's impacts, considering their scale, scope, character and likelihood. It also considers the size of the sector, the sector's distribution around the world and the number of organizations from that sector that are in a position to use the GRI Standards.

Based on this criterion, banking, insurance and capital markets have been selected because of the central role that they play in facilitating all economic activities, which translates into a crucial responsibility for sustainability impacts across all sectors.

When considering the sustainability impacts of these sectors, its useful to distinguish between those caused by organizations directly as a result of their activities and those that the organizations contribute or are directly linked to through their capacity to allocate capital and provide insurance services.

Among the first ones, there are the impacts that organizations can have on their workers and their direct customers, as well as those related to their capacity to avoid tax or host corrupt activities. The Standards Division research has identified financial inclusion, diversity and equal opportunity, consumer privacy, anti-corruption, fair advice and transparent information and labor conditions as impacts that can be material in these sectors. The second type of impacts are broader because the business relationships of these organizations cover all sectors of the economy. They are also larger because these organizations can determine the implementation of most economic activities through the allocation of capital and provision of insurance services.

Of all impacts that organizations in these sectors contribute to through capital allocation, climate change is by far the one that receives most attention. The Paris Aligned Investment Initiative (PAII), one of the most relevant institutions in this field, states that the role of the financial industry in the transition is to decarbonize investment portfolios and increase investment in climate solutions, in a way that is consistent with a 1.5°C Net Zero emissions future.

The project will consider other impacts beyond climate change, when providing recommendations for organizations in these sectors to report on the impacts they contribute to through capital allocation.

These impacts are provided to give a first indication of the scope of issues covered by the proposed project. However, the topics recommended for inclusion within the Sector Standards for banking, insurance and capital markets will be determined by a multi-stakeholder process in accordance with the Due Process Protocol and may diverge from those contained within this project proposal.

Project objectives

The primary objective of this project is to develop three Sector Standards that improve the sustainability reporting of banking, insurance, and capital markets organizations, making reporting more complete and consistent across the sectors.

These Sector Standards will:

- Identify and describe the topics that are likely material for a reporting organization in the banking, insurance and capital markets sectors based on the sectors' most significant impacts.
- Provide evidence and authoritative references for these topics to assist organizations to identify if they are material for them.
- Identify and list appropriate disclosures for reporting on those topics.

As per the new GRI Universal Standards, organizations in the banking, insurance and capital markets sectors that want to report in accordance with GRI standards will be required to use the applicable Sector Standard.

Recommendations may also be made by the Technical Committee/s regarding:

- The scopes and names of each Sector Standard.
- The most effective way to include reporting on impacts that are contributed to or directly linked via business relationships, such as through capital allocation, in Sector Standards.
- Other considerations that may be relevant to Sector Standards for related sectors.
- Revisions or updates to other GRI Standards.

Impacts identified within this project for which no GRI Standard exists will be assessed and prioritized by the GSSB for future GRI Standards development.

Division of responsibilities

A technical committee (TC) will be formed to support the development of each Sector Standard.

It is proposed that each TC will define the impacts that are caused by the activities of organizations in their respective sector and identify the relevant reporting for these.

However, given the overlap in the three sectors as investors in the activities and organizations of other sectors, representatives of the three technical committees will cooperate to define the approach and reporting relevant for the impacts that organizations in these sectors will have through capital allocation.

This forum will also provide an opportunity to identify and discuss any misalignment between the scopes of the three sectors, or the descriptions and reporting identified for likely material topics that are common across the three sectors.

Each TC will be responsible for making the final recommendations on the development of each Standard, however as part of their Terms of Reference, they will be obliged to work towards alignment across the three Sector Standards.

This arrangement is intended to provide for the representation of all stakeholders in the process, a coherent approach across the three sectors in describing and identifying relevant disclosures, and an efficient division of labor to produce three separate standards.

The Standards Division will draft the standards, and the GSSB will have oversight and final approval over the standards before its release.

The Standards Division will ensure coherence between the sector standards banking, insurance and capital markets and any Standards approved or under development.

The project will be conducted in accordance with the GSSB Due Process Protocol.

Timeline

The commencement date of this project has not been determined and is subject to resource availability. Given that this project will develop three Sector Standards, it is expected that it will have a longer duration than other Sector Standard projects. Table 2, on the following page, outlines the anticipated project duration. The commencement date, along with the predicted dates of other key milestones will be confirmed once known.

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Table 2: Estimated duration of Sector Standards Project for financial services [2]

Phase	~Duration (months)	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24	Month 25
Project commencement	1																									
Recruitment of Technical Committees	3																									
GSSB approval of TC membership	1																									
Content development by Technical Committees	12																									
GSSB approval of exposure drafts	1																									
Public comment period	3																									
Analysis of public comments and revision of draft	8																									
GSSB approval of final standard	1																									
Total (months)	27																									

[2] Project scheduling changes may occur over the course of the project, including extensions to the duration of project due to approval processes or other circumstances.