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Item 04 – GRI Sector Standard Project for Financial Services – Project proposal

For GSSB approval

Date	30 January 2023
Meeting	16 February 2023
Description	This document sets out the project proposal to develop Sector Standards for the banking, insurance, and capital markets sectors. The Standards Division recommends producing three standards for banking, insurance, and capital markets under a single project, titled 'GRI Sector Standard Project for Financial Services'. This project 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 report on impacts that are relevant to an organization as a result of this type of business relationship. In accordance with the Due Process Protocol, a draft project proposal was submitted to the GSSB and discussed in October 2022. Subsequently, the draft proposal was circulated to the GRI Board and Stakeholder Council for feedback. No feedback was received from either body. Additionally, since October 2022, consultations with various stakeholders have taken place, providing the basis for certain changes to the final project proposal. Based on stakeholder feedback, it is proposed that payment providers are included within the banking sector, along with investment banks, which were originally included within the capital markets sector in the draft project proposal. Furthermore, stock and commodity exchanges, as well as rating agencies, will be removed from the capital markets sector and the project's scope. It is intended for such organizations to be included in future Sector Standards. Similarly, real estate investment trusts (REITs) will be excluded from this project's scope, with the intention to include them in a future Sector Standard concerning the real estate sector. **Please note**: The commencement date of this project is projected for Q2 of 2023. A finalized start date is subject to 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.

Standards will be developed for the banking, insurance, and capital markets per the list of sectors approved by the GSSB in November 2020. These three Standards will be developed within the bounds of one project.

The impacts that banking, insurance, and capital markets contribute through their holding of financial assets are similar and, as such, should be consistently reported across the three sectors.

Similar stakeholder expectations also exist across the three sectors, and the institutions in which these stakeholders are found cover all financial services industry sectors.

At the same time, banking, insurance, and capital markets carry out specific activities and operate under different regulatory regimes. For this reason, each sector should be given enough room to tailor the reporting recommendations to their needs.

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, contributing about 5% of GDP in the European Union and more than 8% in the United States. However, its real importance lies in its central position in the economy, where few activities could function without credit, insurance, capital markets, or payment services.

Divisions within financial services

There is a range of different sub-sectors and activities within financial services. No single classification 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 large asset managers owned by either banks or insurance companies.

It is proposed to organize financial services into three sectors: banking, insurance, and capital markets. This grouping is based on similar sustainability impacts and the way these organizations are involved with impacts, namely through investment in other sectors. Below is a detailed description of the three sectors.

It is proposed that these Standards be titled as follows:

- GRI 17: Banking Sector 20XX
- GRI 18: Insurance Sector 20XX
- GRI 19: Capital Markets Sector 20XX

The scope and name of these standards may deviate from this proposal following recommendations from the technical committees or other input gathered through the project.

Banking

Banks are institutions that mainly take in deposits and provide loans.

It is proposed that the Sector Standard for banking will apply to organizations whose primary purpose is one or more of the following activities:

- Banking
- Consumer finance, including credit card services, mortgage lenders, microfinance institutions, and personal and student loan services
- Investment banking
- Payment providers

Investment banks facilitate complex and large transactions for corporate clients, such as mergers and acquisitions, IPOs, and debt financing. Quite often, investment banks also offer typical banking services to retail clients.

Payment providers are inextricably linked to banking and are increasingly offering simple banking services, such as short-term consumer credit.

Given the significant overlap and integration between financial technology (fintech) and payment providers, it is important to clarify that the banking sector will not include fintech companies that primarily develop enabling technologies (e.g., software products) for the financial services sectors. Such companies will form part of future Sector Standard(s) covering software.

There are more banks than other financial institutions; they are also larger on average and have a higher public profile. Most people utilize a range of financial services offered by banks, which may have substantial and direct impacts on their welfare.

Table 1: Proposed sector key for the Banking Sector Standard

Classification Standard	Classification No.	Classification Name
GICS®	4010	Banks
	40201050	Commercial & Residential Mortgage Finance
	40201060	Transaction & Payment Processing Services
	40202010	Consumer Finance
	40203020	Investment Banking & Brokerage
ICB	3010	Banks
	30201020	Consumer Lending
	30201025	Mortgage Finance
	30202000	Diversified Financial Services
ISIC	641	Monetary intermediation
	6491	Leasing

	6492	Other credit granting
SICS®	FN-IB	Investment Banking & Brokerage
	FN-CB	Commercial Banks
	FN-CF	Consumer Finance
	FN-MF	Mortgage Finance

Note: Tables 1, 2, and 3 list 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 the form of insurance contracts.

It is proposed that the Sector Standard for insurance will apply to organizations whose primary purpose is the provision of the following products or services:

- Life insurance
- Non-life insurance, including:
    - Health insurance
    - Travel insurance
    - Property insurance
    - Motor, marine, aviation, and transport insurance
    - Casualty and accident insurance
- Reinsurance
- Insurance intermediaries, for example agents and brokers

Insurance intermediaries, such as agents and brokers, while not providing insurance policies, can influence the way that the insurance sector operates and are thus included in this sector.

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

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

ISIC	651	Insurance
	652	Reinsurance
	662	Activities auxiliary to insurance and pension funding
SICS®	FN-IN	Insurance

Capital markets

Organizations in this sector provide or facilitate the investment of money in order to generate financial returns.

It is proposed that the Sector Standard for capital markets will apply to:

- Asset owners
- Asset managers
- Pension funds
- Sovereign wealth funds

Table 3: Proposed sector key for the Capital Markets Sector Standard

Classification Standard	Classification No.	Classification Name
GICS®	40203010	Asset Management & Custody Banks
	40203030	Diversified Capital Markets
ICB	30202000	Diversified Financial Services
	30202010	Asset Managers & Custodians
ISIC	642	Holding companies
	643	Trusts
	6499	Other financial services activities
	653	Pension funds
	6619	Other activities auxiliary to financial services
	663	Fund management
SICS®	FN-AC	Asset Management & Custody Activities

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 make decisions on allocating capital towards more or less sustainable activities.

Banks and insurers also have substantial sustainability impacts through capital allocation to other activities, which should be treated consistently across the three financial services sectors. This is the key reason for proposing to develop the three standards under a single project.

Based on various stakeholder consultations, it is proposed that stock and commodity exchanges, rating agencies, and real estate investment trusts (REITs) be excluded from this project's scope. It is also proposed that investment banking be included in the banking sector rather than in the capital markets sector.

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. The criterion also considers the sector's size, worldwide distribution, and the number of organizations from that sector that can use GRI Standards.

Based on this criterion, banking, insurance, and capital markets were selected because of their central role 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, it is useful to distinguish between those caused by organizations directly as a result of their activities and those to which organizations contribute or are directly linked through their capacity to allocate capital and provide insurance services.

Examples of direct impacts include those that organizations have on their workers and customers, as well as those related to their capacity to evade tax or host corrupt activities. The Standards Division's research has identified impacts that can be material in these sectors as follows:

- Financial inclusion
- Diversity and equal opportunity
- Consumer privacy
- Anti-corruption
- Fair advice and transparent information
- Labor conditions

Impacts resulting from business relationships are broader because financial services organizations have business relationships that span all sectors of the economy. Because these organizations can determine the implementation of many economic activities through the allocation of capital and provision of insurance services, these impacts are larger in scale.

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

The impacts mentioned in this section provide 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 comprehensive and consistent across the sectors.

These Sector Standards will:

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

As per the 2021 revision of 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 by the technical committees may also be made regarding the following:

- The scopes and names of each Sector Standard.
- The most effective way to include reporting on impacts that 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

Three technical committees (TCs) will be formed to support the development of each Standard.

It is proposed that each TC define the impacts caused by organizations' activities in their respective sectors and identify the relevant reporting for these.

Given the overlap across the three sectors regarding investing in other non-financial sectors, the TCs will cooperate via a cross-sector exchange. This cooperation will help define the approach and reporting relevant to the impacts organizations have through capital allocation and other impacts the sectors have in common.

The cross-sector exchange will also provide an opportunity to identify and discuss any misalignment between the three sectors' scopes and the descriptions and reporting identified for likely material topics common to all.

Each TC will make the final recommendations on their respective Standard's development. However, as part of their Terms of Reference, they will be obliged to work towards alignment across the three Standards.

This arrangement intends to represent 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 standards.

The Standards Division will draft the Standards, and the GSSB will have oversight and final approval before release. The Standards Division will ensure coherence between the Sector Standards for 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 is projected for Q2 2023. A finalized start date 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. Predicted dates of key milestones will be confirmed once known.

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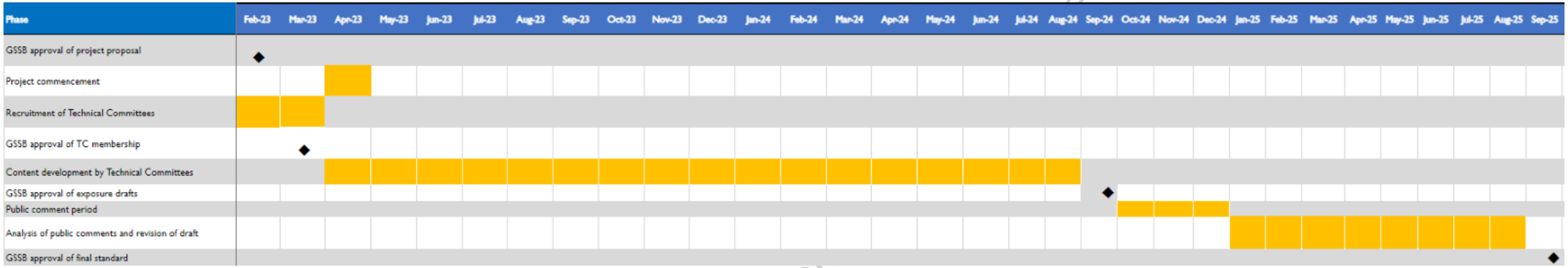
Table 2: Estimated duration of Sector Standard Project for Financial Services [2]



[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.