

# How to strengthen social responsibility in the financial sector ?

FRDO-CFDD Seminars – Aligning finance with sustainable development  
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# Focus on 2 topics



Towards Sustainability label as  
guide for qualitative sustainable  
financial products



Broader ESG due diligence by  
financial institutions

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# Towards Sustainability label as a tool

# Towards Sustainability label

- Label for 'Sustainable' financial products
- Mitigate confusion of retail and institutional investors
- Avoid greenwashing
- Move the whole market towards more sustainability
  - A minimal norm with rather strict conditions
  - Encouragement to go beyond
  - No niche, but a sustainable products for all investor profiles
- Aligned with upcoming EU regulations
- Independent governance, supervision & verification



# Label based on extensive set of sustainability criteria – The Quality Standard



## A. Sustainability strategies

A multi-faceted approach to sustainability

INTEGRATE -  
SELECT -  
FOCUS - ENGAGE



## B. Avoid harm

Some things do not belong in a sustainable portfolio



## C. Transparency

What is taken into account and how?

FORMAL POLICIES

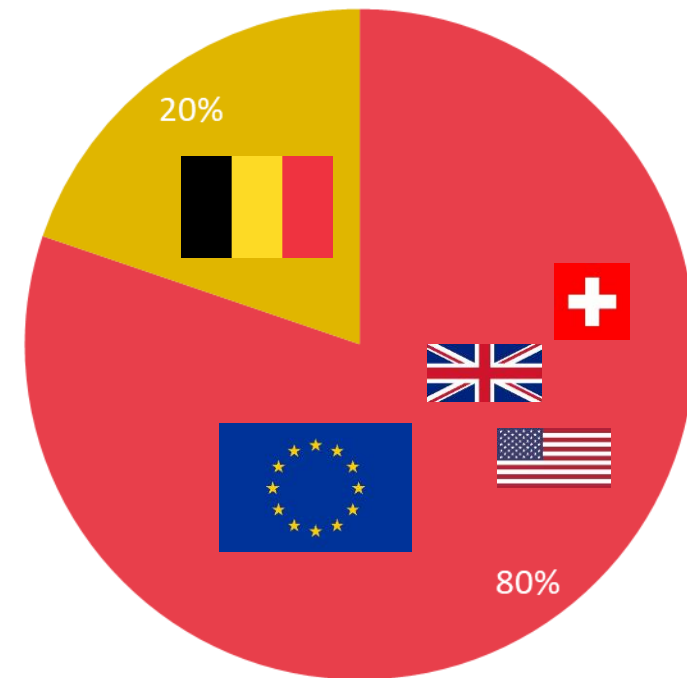
# Broad market adoption of the label

## Involved institutions

- 85+ financial institutions
- Banks, asset managers, insurance companies, private bankers, etc
- Indexproviders, rating agencies

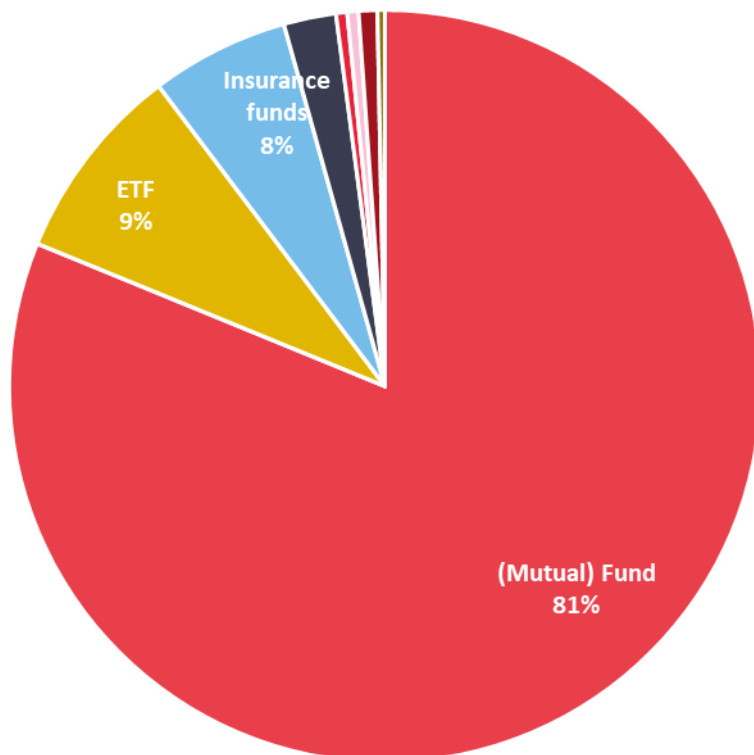
## from many countries

- Belgium
- Luxembourg
- France
- The Netherlands
- Germany
- Ireland
- Nordics
- United Kingdom
- Switzerland
- US
- Australia



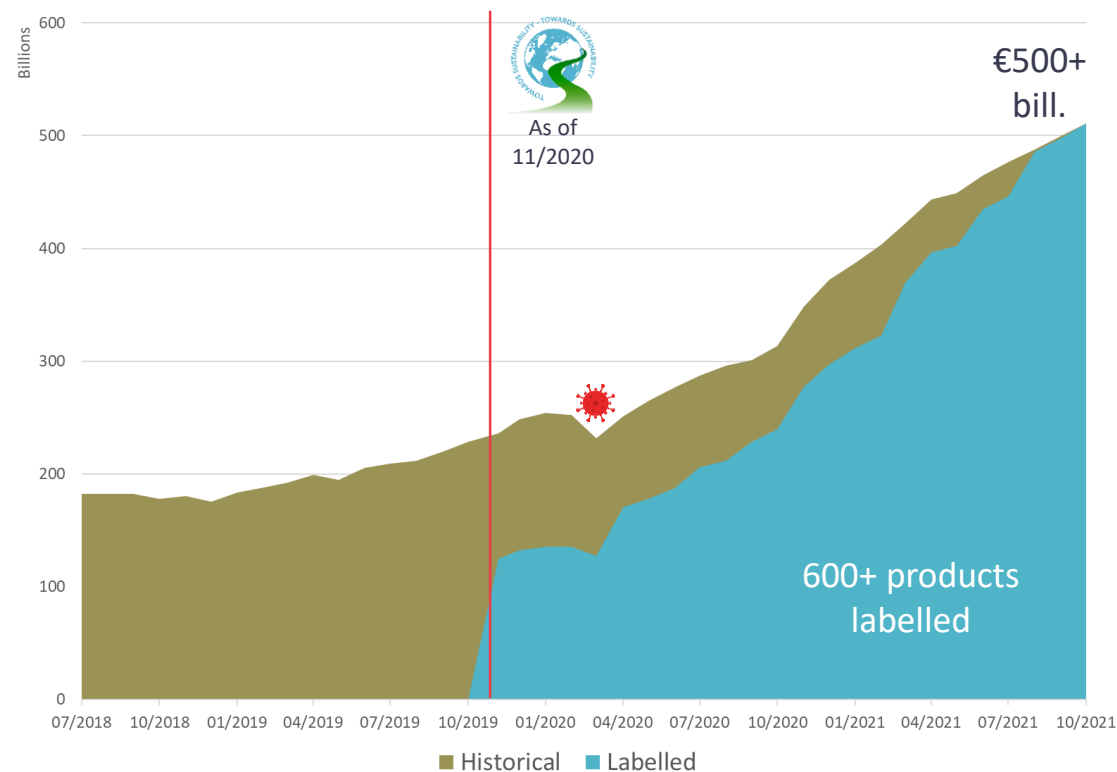
# Labelled products

By product type



See full list on: [www.towardssustainability.be](http://www.towardssustainability.be) > Products

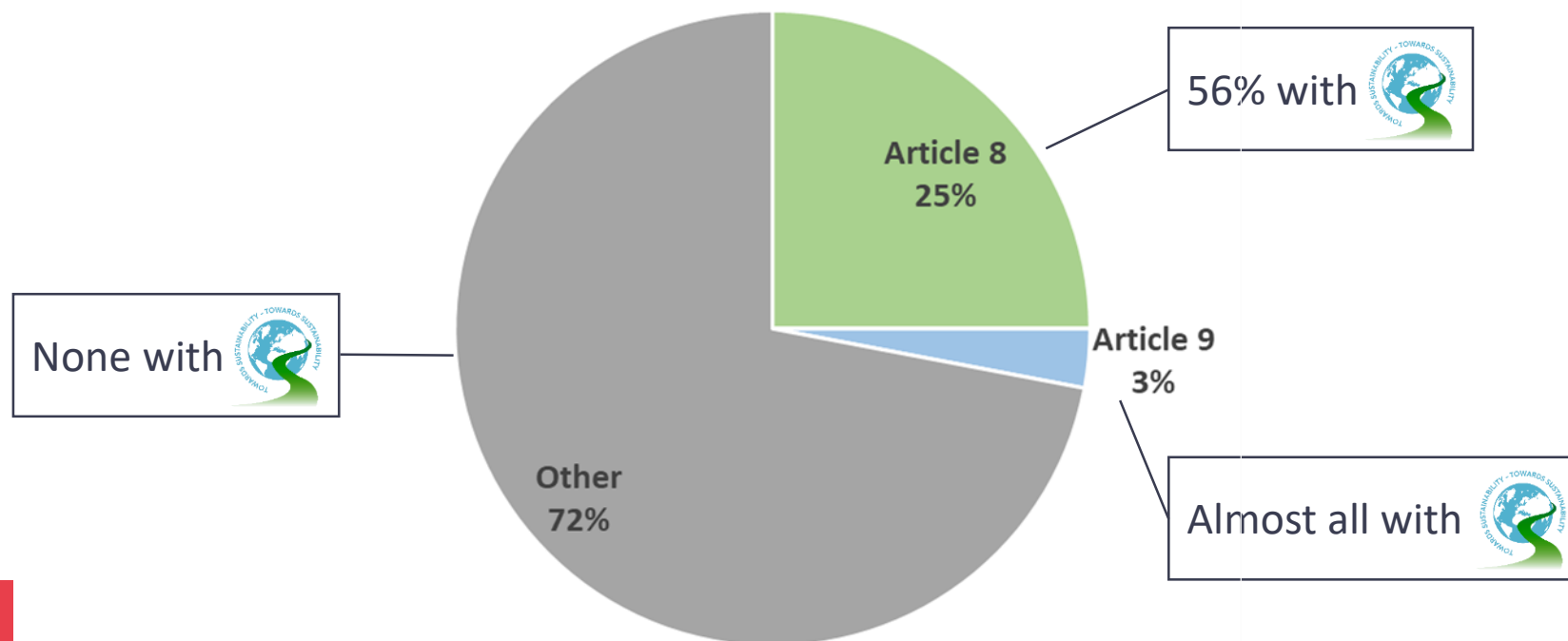
By assets



➔ Most comprehensive label in Europe

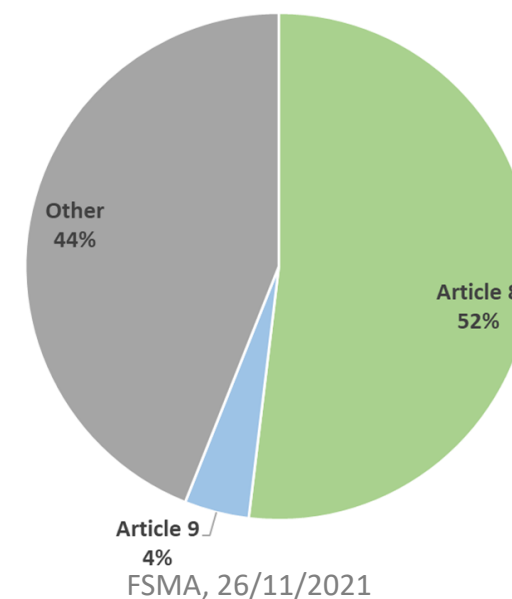
# Belgian funds – SFDR & Towards Sustainability

By number of products



De Tijd 16/7/2021 – Belgian (sub)funds, based on FSMA study

By assets



Article 9  
4%  
FSMA, 26/11/2021



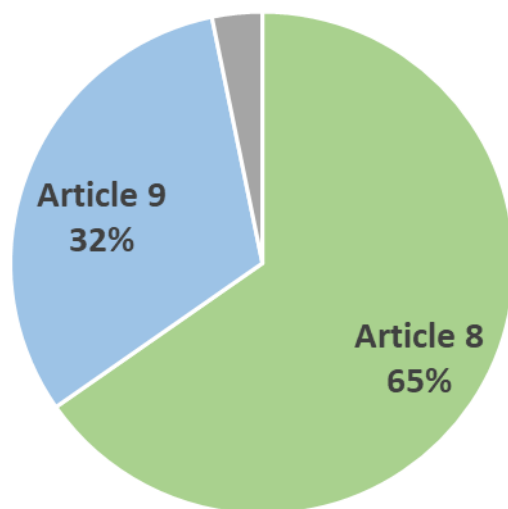
The label fulfils its role & provides added-value:

Provide differentiation and quality assurance about products in the very diverse range of art. 8 products

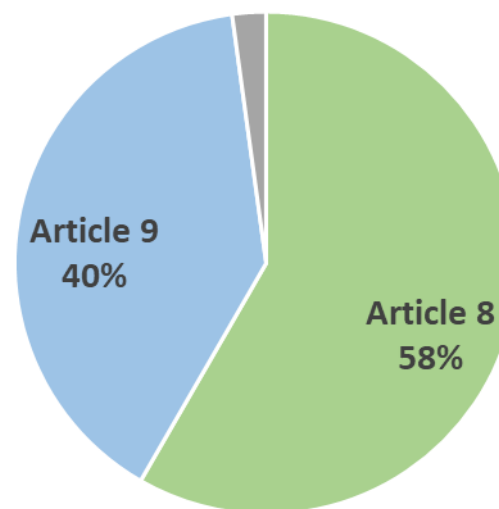


# SFDR classification of Towards Sustainability funds

By number of products



By assets



Source: CLA, Nov. 2021, based on Morningstar and direct reporting



**Strong tilting towards products with ESG objectives and strongly developed ESG characteristics**

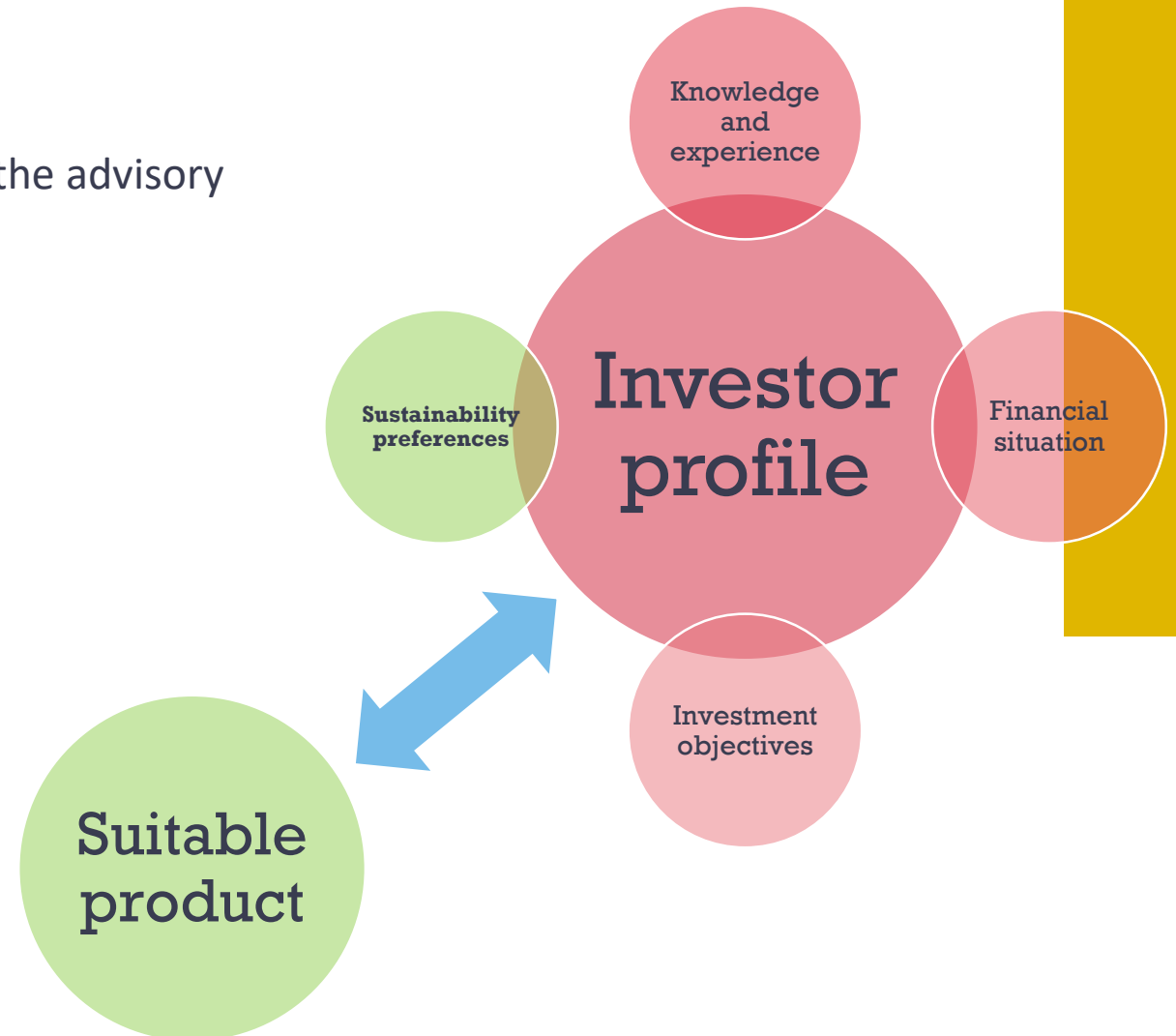
Labelled products are required to be SFDR art. 8 or 9: grey zone are products not in scope of SFDR

# Client's sustainability preferences

- MiFID update
  - Take sustainability preferences into account in the advisory process and portfolio management
  - Avoid mis-selling practices and greenwashing
- What does client expect from its portfolio:
  - How green?
  - How much impact?
  - What to exclude?



Towards Sustainability label as a useful tool and independent certification, for end-investors to navigate sustainable financial products



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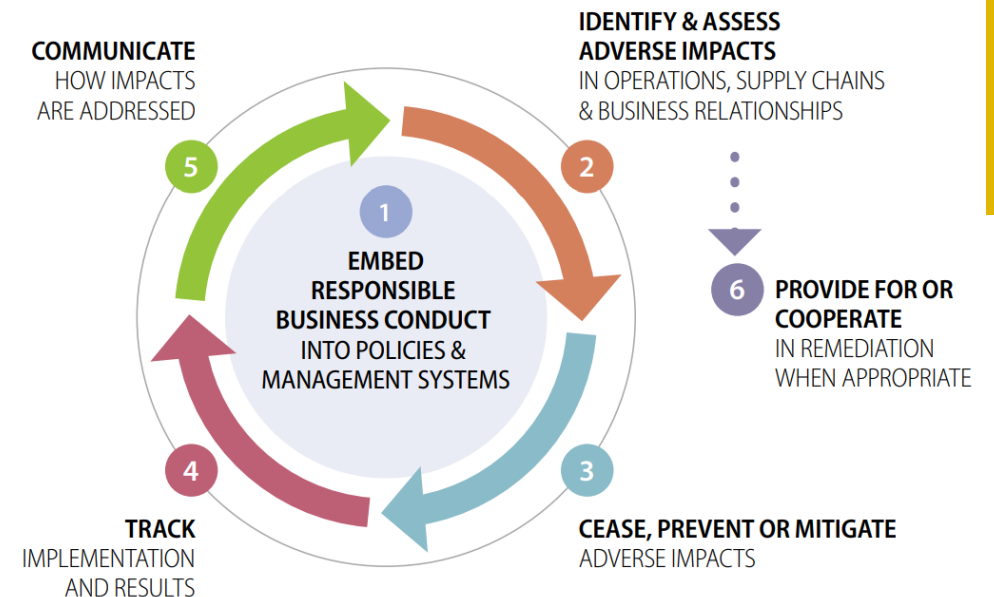
# ESG due diligence by financial institutions

# ESG due diligence

- Common definition of due diligence in the context of banking
  - Process conducted prior to providing financing or services to a client with the aim of identifying and assessing reputational, legal and financial risks to the bank



- ESG due diligence
  - Ongoing process that focuses on the management of actual or potential adverse impacts of a client's operations on the environment and/or the labour and human rights, with the aim of preventing or mitigating these
    - human rights, workers and industrial relations, environment, bribery and corruption, disclosure, and consumer interests



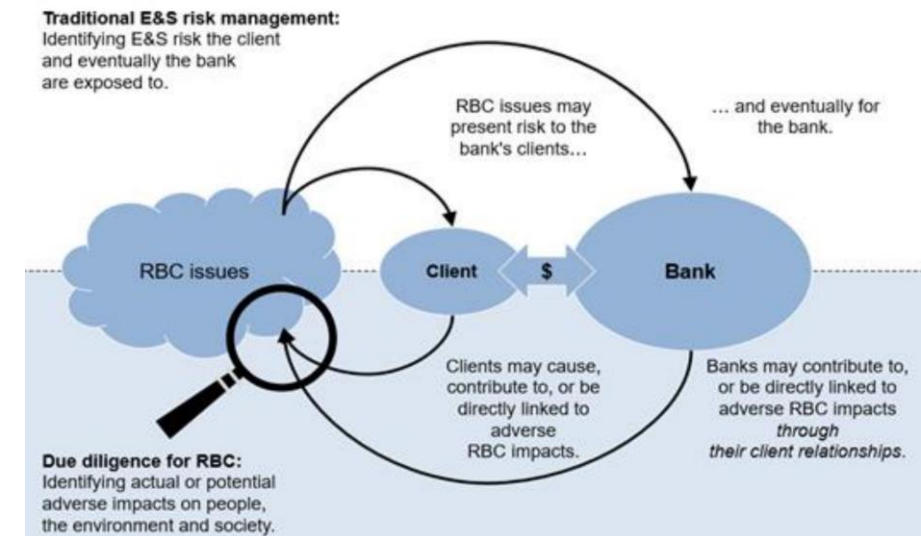
# Scope of ESG due diligence

- Broader than SRI investment products
- Whole value chain of financial services
- Focus on link to adverse impacts by client relationships

See UNGP 13: The responsibility to respect human rights requires that business enterprises:

- Avoid causing or contributing to adverse human rights impacts through their **own activities**, and address such impacts when they occur;*
- Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services **by their business relationships**, even if they have not contributed to those impacts.*

- Depends on scope, type and location of financial services offered



Source: OECD Due Diligence Guidance for Responsible Business Conduct (RBC), 2018

→ particular challenge for the financial sector

- employees, suppliers, partners
- retail and commercial banking clients, investee companies, project finance syndication
- etc.



# OECD Guidelines

- OECD Guidelines for Multinational Enterprises
  - + Due Diligence Guidance for Responsible Business Conduct
- Sectoral guidance
  - Due Diligence for Responsible Corporate Lending and Securities Underwriting
  - Responsible Business Conduct for Institutional Investors

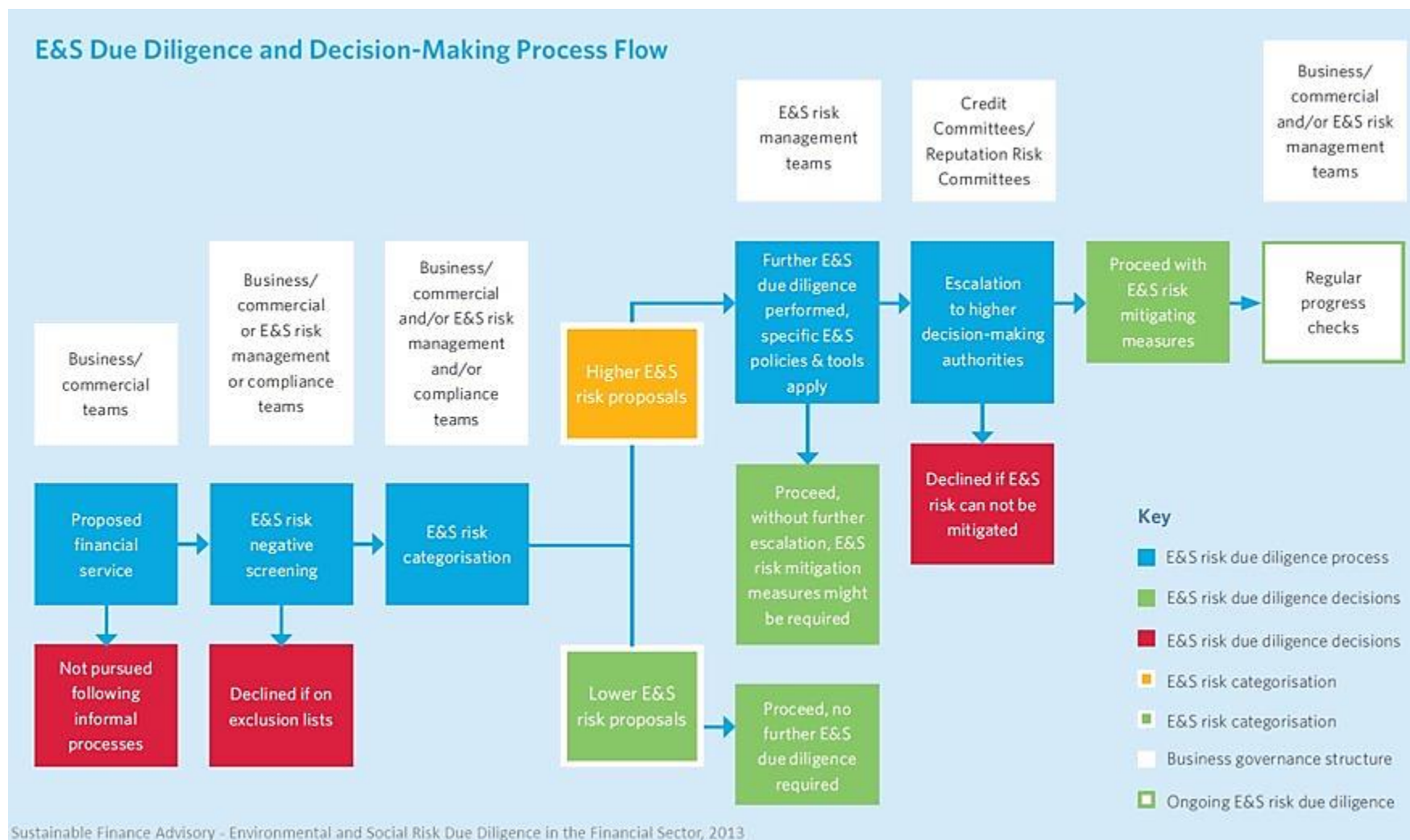


# Practical implementation

- Depending on business model of the financial institution
  - Risk-based approach
- Integration of responsible business conduct aspects into traditional transactional or “know your customer” (“KYC”) due diligence processes
- Integration of responsible business conduct analysis into screening of loan portfolios and periodically reviewing individual client relationships and credit processes
- Client-based and activity-based approach
  - AML & CTF procedures, embargo’s
  - Sector policies
  - Frameworks: e.g. Equator principles
  - etc.



# Generic ESR Due Diligence & Decision-making flow







Belgian Financial Sector Federation

[www.febelfin.be](http://www.febelfin.be)