

*Asia Pacific Forest Week 2016,
workstream 5: investments*

Integrating environment, social and
governance issues within capital
markets

Analysis and insights from WWF and
PwC



pwc

Contents

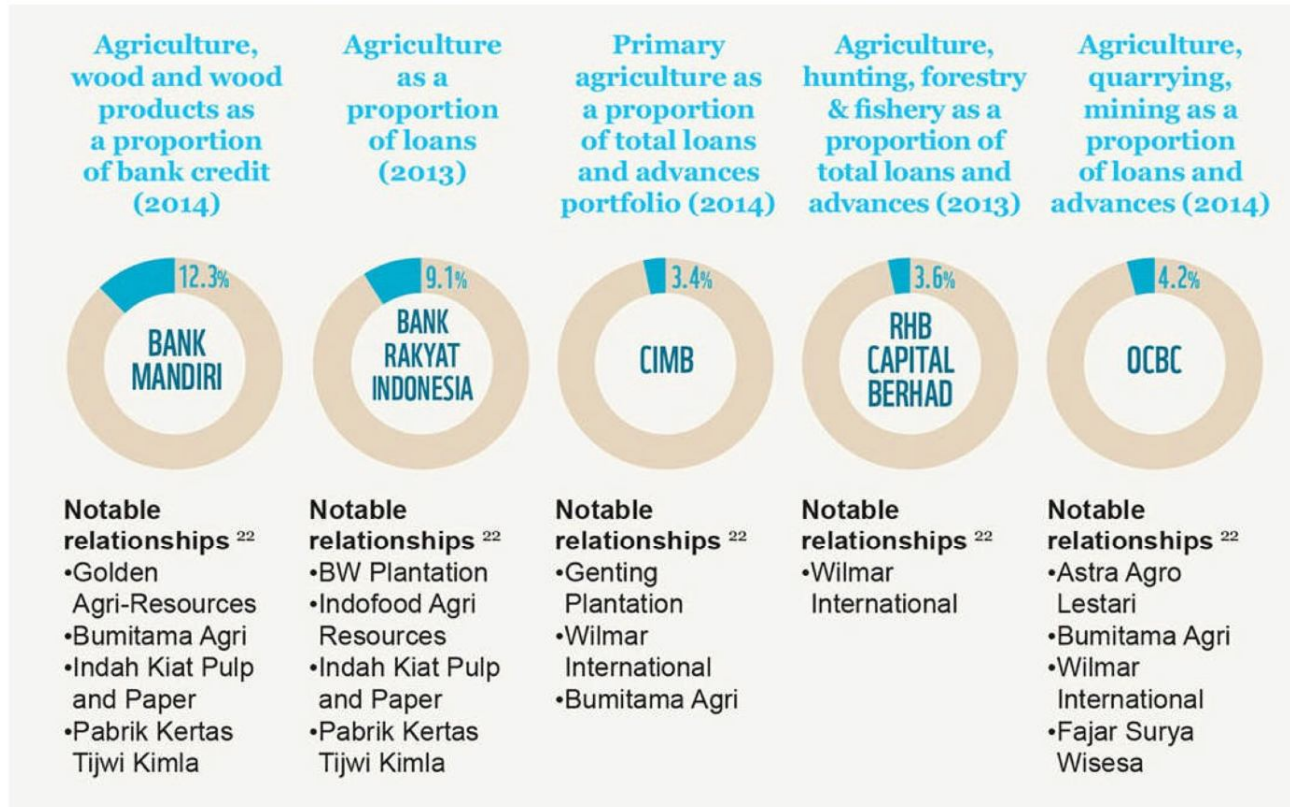
WWF research on Asia regional banks

HSBC and Brazilian case studies

WWF research on Asia institutional investors

Conclusions

WWF research on regional bank loan portfolios



Source: WWF: Sustainable Finance In Singapore, Indonesia And Malaysia: A Review Of Financial ESG Practices, Disclosure Standards And Regulations

WWF research on regional bank loan portfolios



Is there a high level statement on sustainable lending?

There were very few statements of intent from domestic banks. All three were from Indonesian banks.



Does client approval include an ESG screen for factors other than Sharia?

Almost all the domestic banks have Islamic subsidiaries that operate ethical screens, however, broader ESG factors were rarely considered.



Is ESG used as a tool in credit processes?

The lack of consideration of ESG in credit likely indicates unmanaged risks.



Source: WWF: Sustainable Finance In Singapore, Indonesia And Malaysia: A Review Of Financiers ESG Practices, Disclosure Standards And Regulations

WWF research on regional bank loan portfolios

Is there disclosure of an ESG policy relating to forest risk commodities?

All of the global banks have forest risk commodity related policies. Only one domestic bank had a policy specific to palm oil.



Is there disclosure of training on ESG?

Although most of the domestic banks provide disclosure on human capital management, there was essentially no disclosure on training for ESG issues.



Source: WWF: Sustainable Finance In Singapore, Indonesia And Malaysia: A Review Of Financial ESG Practices, Disclosure Standards And Regulations

WWF recommendations on ESG integration in banking

BANKS

- Develop an ESG strategy and implementation framework including sector policies. Refer to WWF *ESG Integration for Banks: A Guide to Starting Implementation*⁸.
- Implement, monitor and report on the ESG strategy.
- Join multi-stakeholder initiatives and other banking initiatives such as the Banking Environment Initiative (BEI)⁹ or Equator Principles¹⁰.
- Encourage and support national banking associations to create voluntary sustainable finance guidelines.
- Islamic finance councils may wish to consider whether there is scope to include environmental factors.

BANKING REGULATORS

- Produce national guidelines for banks to support integration of environmental and social risks into credit evaluation processes.
- Support banks through training and capacity-building programmes.
- Introduce reporting standards to increase bank transparency on management of environmental and social risks in portfolios.



Source: WWF: Sustainable Finance In Singapore, Indonesia And Malaysia: A Review Of Financial ESG Practices, Disclosure Standards And Regulations

The HSBC experience in forestry and ESG

**Forest Land and Forest Products
Sector Policy**

Introduction

Forests cover four billion hectares, or 30% of the world's land surface. They support a wide range of commercial activities, from logging operations to the manufacture of such products as plywood and paper. Other associated products such as palm oil or soy may originate from forest land which has been converted to plantations. The forest land and forest products sector plays a key role in world trade flows and, indeed, in world economic development.

Forests are also important because of their high biodiversity, which includes endangered species. They provide a home for forest-dwelling people, whose traditional lifestyles may depend on the forest. As a result, the sector's activities, if not managed responsibly, can have potentially significant impacts on both the environment and local communities.

HSBC has a long-standing commitment to sustainable development and, when supporting clients in the forestry sector, we seek to balance these complex economic, environmental and social issues. Our *Forest Land and Forest Products Sector Policy* provides guidance on sustainability standards applicable to our involvement in the sector. These standards represent international good practice and have been drawn up after extensive consultation with the industry and with other key expert stakeholders. The standards are consistent with our other policies, such as the Equator Principles framework which we apply to project finance activities. They also reflect HSBC's commitment to engage with the sector and to work with clients which are moving towards a sustainable business model. While not an easy strategy to implement, we consider engagement rather than exclusion as the right approach for a responsible bank to take.

This document is a summary of our policy. The principal elements are that it prohibits illegal logging and forestry in highly sensitive areas, and it supports clients whose operations are independently certified as legal and sustainable. A separate document on *Frequently Asked Questions* answers questions raised by stakeholders.

Scope

The financial services covered by the policy include all lending and other forms of financial assistance, debt and equity capital markets activities, project finance and advisory work.

The activities within the scope of the policy are: forestry and logging; timber processing such as sawmilling or the manufacture of panel products and wooden furniture; timber trading; the manufacture of pulp and paper; and plantations (timber, oil palm, soy and rubber).


Policy prohibitions

HSBC will not provide financial services which directly support:

- illegal logging;
- operations in UNESCO World Heritage Sites; and
- operations in wetlands on the Ramsar List.

Certification standard


HSBC requires clients to obtain independent certification, to our standard, that their timber operations and/or their supplies of timber products are legal and sustainable. Our standard is based on the September 2008

HSBC 
The world's local bank

**Forestry Policy Reviews: HSBC
Management Response**


July 2014

PUBLIC

HSBC 

Source:
www.hsbc.com/citizenship/sustainability/finance/forestry-and-agricultural-commodities

Forest sector lending controls - Brazil Resolution 3,545



BANCO CENTRAL DO BRASIL

RESOLUÇÃO Nº 3545

Altera o MCR 2-1 para estabelecer exigência de documentação comprobatória de regularidade ambiental e outras condicionantes, para fins de financiamento agropecuário no Bioma Amazônia.

O BANCO CENTRAL DO BRASIL, na forma do art. 9º da Lei nº 4.595, de 31 de dezembro de 1964, torna público que o CONSELHO MONETÁRIO NACIONAL, em sessão realizada em 28 de fevereiro de 2008, tendo em vista as disposições dos arts. 4º, inciso VI, da referida Lei, 4º e 14 da Lei nº 4.829, de 5 de novembro de 1965,

RESOLVEU:

Art. 1º O MCR 2-1 passa a vigorar com as seguintes alterações e novos dispositivos:

I - no item I, adequação da alínea "g", nos termos abaixo:

"g) observância das recomendações e restrições do zoneamento agroecológico e do Zoneamento Ecológico-Econômico - ZEE.

II - inclusão de novos itens, com as seguintes descrições:

"12 - Obrigatoriamente a partir de 1º de julho de 2008, e facultativamente a partir de 1º de maio de 2008, a concessão de crédito rural ao amparo de recursos de qualquer fonte para atividades agropecuárias nos municípios que integram o Bioma Amazônia, ressalvado o conteúdo nos itens 14 e 16 do MCR 2-1, ficará condicionada a:

a) apresentação, pelos interessados, de:


I - Certificado de Cadastro de Imóvel Rural - CCIR vigente; e

II - declaração de que não existem embargos vigentes de uso econômico de áreas desmatadas ilegalmente no imóvel; e

III - licença, certificado, certidão ou documento similar comprobatório de regularidade ambiental, vigente, do imóvel onde será implantado o projeto a ser financiado, expedido pelo órgão estadual responsável; ou

IV - na inexistência dos documentos citados no inciso anterior, atestado de recebimento da documentação exigível para fins de regularização ambiental do imóvel, emitido pelo órgão estadual responsável, ressalvado que, nos Estados onde não for disponibilizado em meio eletrônico, o atestado deverá ter validade de 12 (doze) meses;

b) verificação, pelo agente financeiro, da veracidade e da vigência dos documentos referidos na alínea anterior, mediante conferência por meio eletrônico junto ao Resolução nº 3545, de 29 de fevereiro de 2008.



BANCO CENTRAL DO BRASIL

órgão emissor, dispensando-se a verificação pelo agente financeiro quando se tratar de atestado não disponibilizado em meio eletrônico; e

c) incluído, nos instrumentos de crédito das novas operações de investimento, de cláusula prevendo que, em caso de embargo do uso econômico de áreas desmatadas ilegalmente no imóvel, posteriormente à contratação do operação, nos termos do § 11 do art. 2º do Decreto nº 3.179, de 21 de setembro de 1999, será suspensa a liberação de parcelas até a regularização ambiental do imóvel e, caso não seja efetivada a regularização no prazo de 12 (doze) meses a contar da data da atuação, o contrato será considerado vencido antecipadamente pelo agente financeiro.

13 - Aplica-se o disposto no item anterior também para financiamento a parceiros, succeios e arrendatários.

14 - Quando se tratar de beneficiários enquadrados no Pronaf ou de produtores rurais que disponham, a qualquer título, de área não superior a 4 (quatro) módulos fiscais, a documentação referida no MCR 2-1-12-ºa, II e III IV poderá ser substituída por declaração individual de interessado, atestando a existência física de reserva legal e área de preservação permanente, conforme previsto no Código Florestal, e a inexistência de embargos vigentes de uso econômico de áreas desmatadas ilegalmente no imóvel.

15 - Para os beneficiários do Programa Nacional de Reforma Agrária - PNRA enquadrados nos Grupos "A" e "A/C" do Pronaf, a documentação referida no MCR 2-1-12-ºa e MCR 2-1-14 poderá ser substituída por declaração, fornecida pelo Instituto Nacional de Colonização e Reforma Agrária - Instra, atestando que o Projeto de Assentimento - PA encontra-se em conformidade com a legislação ambiental e/ou que foi firmado Termo de Ajustamento de Conduta com essa finalidade, tendo como anexo da declaração a respectiva relação de beneficiários do PA.

16 - Os agricultores familiares enquadrados no Grupo "B" do Pronaf ficam dispensados das exigências previstas no MCR 2-1-12-ºa e "b" e MCR 2-1-14.

Art. 2º O MCR 2-2-11 passa a vigorar com a seguinte adequação de redação em sua alínea "c":

"c) o empreendimento será conduzido com observância das normas referentes ao zoneamento agroecológico e ao Zoneamento Ecológico-Econômico - ZEE".

Art. 3º Esta Resolução entra em vigor na data de sua publicação.

São Paulo, 29 de fevereiro de 2008.

Henrique de Campos Meirelles
Presidente

Este texto não substitui o publicado no DOU e no Site do BCB.

Resolução nº 3545, de 29 de fevereiro de 2008.

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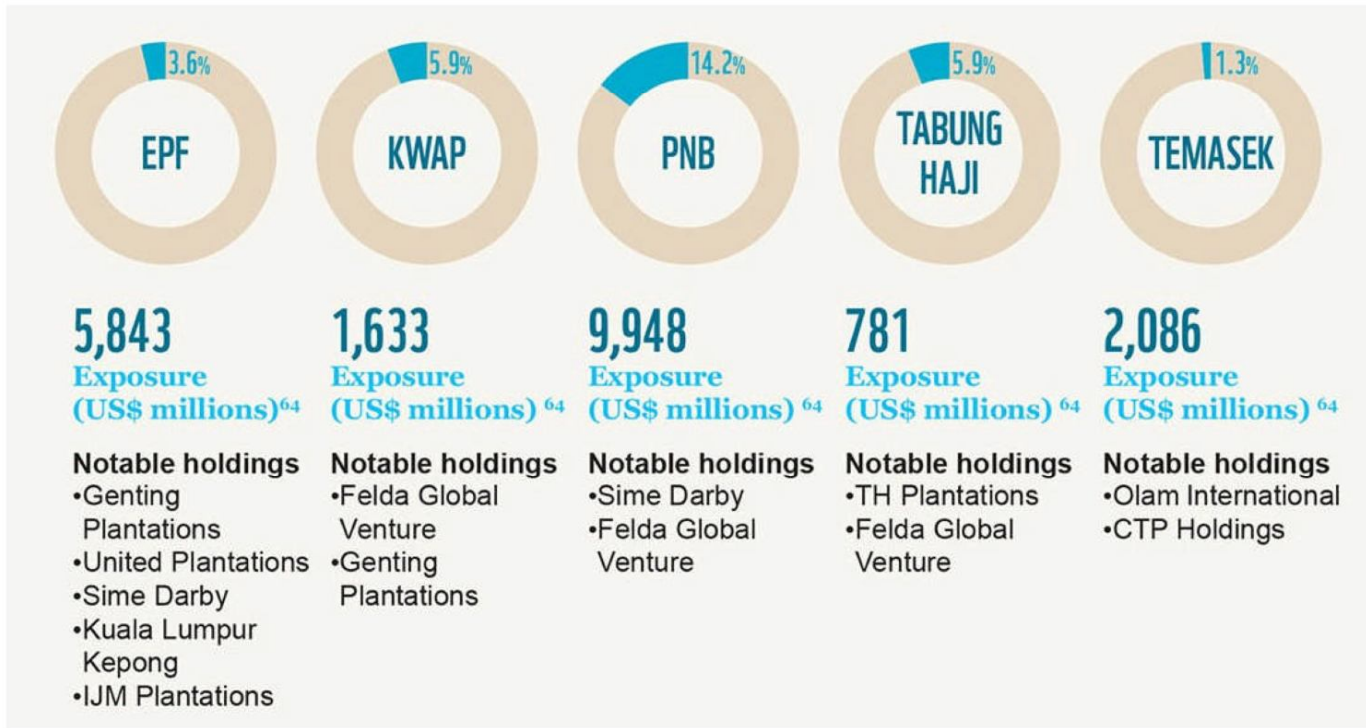
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Prevention of 2,700 km² of forest clearance

15% decrease in deforestation, 2008-2011, CPI

WWF research on regional institutional investment



Source: WWF: Sustainable Finance In Singapore, Indonesia And Malaysia: A Review Of Financial ESG Practices, Disclosure Standards And Regulations

WWF research on regional institutional investment



DOMESTIC %



INTERNATIONAL %

Does the investor provide disclosure of its holdings?

In many markets transparency has increased accountability to beneficiaries.

0%



If the corporate governance policy is published, does it include specific reference to ESG?

The absence of disclosure on ESG-related engagement suggests domestic funds are not considering material ESG risks.

8%



Does the investor specifically allocate funds to sustainability solutions providers?

Sustainability problems offer many potential equity opportunities and a fast-growing requirement for debt funding. Yet the domestic funds show very little interest in these areas.

17%



WWF recommendations on ESG integration in investment

INVESTORS

- Use ESG analysis to identify systemic risks such as climate change and enhance valuation/forecasting.
- Step up active ownership to manage systemic and company risks.
- Engage with portfolio companies, especially forest risk commodity companies, to improve ESG standards.
- Access knowledge and best practices by joining international collaborative initiatives such as PRI, CDP, and ACGA.
- Engage with locally-listed banks within investment portfolios to support their development of ESG practices.

SECURITIES MARKET REGULATORS

- Support increased levels of active ownership, including through promotion of stewardship codes for institutional investors.



Source: WWF: Sustainable Finance In Singapore, Indonesia And Malaysia: A Review Of Financiers' ESG Practices, Disclosure Standards And Regulations

WWF recommendations on ESG integration in investment

TIMBER, PULP AND PAPER



Does the company disclose policy or equivalent practices relating to preservation of priority areas in line with its activities?

This relates to limiting deforestation risk, which is increasingly a customer requirement.



Does the company disclose a policy or take equivalent actions relating to local and indigenous communities in areas from which it sources?

Many buyers have policies banning exploitation.



Does the company disclose a due diligence system to manage the risk that its product is not produced/harvested and traded in compliance with all applicable local, national and ratified international laws and regulations?

Illegal production is increasingly penalized through legislation by producer and consumer governments.



Does the company disclose a policy on GHG emissions or equivalent practices?

Climate change is a risk to the industry, yet very few disclose steps to mitigate it.



Does the company disclose that it uses ILO standards or provide relevant protections?

Securing an adequate labour force is increasingly a challenge – high standards can create a better reputation.



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WWF recommendations on ESG integration in investment

PALM OIL



Does the company disclose policy or equivalent practices relating to priority areas or areas on which it will not plant?

This relates to limiting deforestation risk, which is increasingly a customer requirement.



Does the company disclose time-bound targets to reduce greenhouse gas (GHG) emissions from current operations?

Climate change is a risk to the industry, yet very few companies disclose steps to mitigate it.



Does the company disclose that its product, including externally sourced materials, is produced/harvested in compliance with all applicable local, national and ratified international laws and regulations?

Legal production is increasingly a requirement of producer and consumer governments and of buyers and traders.



Does the company disclose a policy on local and indigenous communities?

Many traders and buyers have policies banning exploitation.



Does the company disclose that it uses International Labour Organization (ILO) standards or provide relevant protections?

Securing an adequate labour force is increasingly a challenge – high standards can create a better reputation.



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Conclusions

- Global and regional capital markets do influence forest management
- An established process to integrate ESG in forest finance exists, but needs further uptake
- ‘Doing less harm’ is only part of the agenda, helping banks and investors ‘do more good’ should be a part of our work
- What opportunities exist to coordinate efforts on forest (and landscape level) finance?

Thank you

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PwC and WWF presentation