FINANSINSPEKTIONEN

Environmental and sustainability perspectives in credit granting to companies

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Summary

Finansinspektionen (FI) has been commissioned by the Government to report on the bank's internal rules regarding credit granting to companies from the perspective of the environment and sustainability. If necessary, FI shall present proposals for measures that can be included in the banks' credit granting process to promote such a perspective.

FI has therefore surveyed the bank's internal rules regarding credit granting to companies from the perspective of the environment and sustainability. The survey covers nine banks that together account for the majority of total corporate lending in Sweden. FI has also reviewed the legal conditions applicable in this context.

FI's survey shows that the banks' internal rules take environmental risk into account, as part of the credit risk, in their credit assessments when lending to companies. It is thus a question of an assessment from a financial aspect, where a higher environmental risk can lead to a poor deal for the bank.

The banks' internal rules also show that environmental risk should be taken into account with respect to their own ethical guidelines, prestige and reputational risk.

The legal conditions for the banks' actions in this field entail, according to FI's review, that they shall include the business aspects of the environmental risk in the credit assessment, and manage the reputational risk that the environmental risk may entail. From what FI has seen in the banks' internal rules, the banks thus observe these legal requirements.

There are no legal or regulatory requirements that the banks shall take further measures to promote an environmental and sustainability perspective in their credit granting. On the other hand, it appears from what FI can discern from the banks' internal rules, that many of them have voluntarily taken supplementary measures. Various self-assumed initiatives, such as following various international principles or joining in international initiatives and standards, show that several banks are making efforts to adapt their credit granting so that it takes account of environmental and sustainability issues to a greater extent. This applies in particular to the larger banks and to banks with international operations.

The material that FI has seen also points to a probable increase in scope in the banks' work on applying an environmental and sustainability perspective in their credit granting. However, further measures also need to be considered to hasten this development.

FI considers it very important that the banks become more open so that their customers, investors, counterparts and other stakeholders can form an opinion of how the banks take account of environmental and sustainability issues in their credit granting. Transparency is an important driving force for change and can in this context create further incentives for the banks to continue to increase the scope and ambition of their work in the environmental and sustainability area. Increased transparency could therefore serve a purpose in promoting a sustainability perspective in credit granting.

The banks should endeavour to ensure their information is simple, clear and easy to understand and also enables comparisons between the banks. FI does not consider that this can be attained through regulation. Instead, FI feels that this is attained through industry initiatives. Industry initiatives for increased transparency have worked well in other contexts and can also work well here, in FI's opinion.

Background

THE GOVERNMENT'S ASSIGNMENT TO FI

Finansinspektionen (FI) was given, by means of an amendment to the letter of appropriation for the budget year 2015, dated 4 June 2015, the assignment of presenting a special report on the banks' guidelines for granting credit to companies from an environmental and sustainability perspective. Where necessary, proposals shall be presented regarding measures that can be included in the banks' management of their credit-granting process to promote a sustainability perspective within companies that at present neither has nor attains, for instance, a carbon dioxide emission reduction target or an energy efficiency target.

Findings shall be presented by 27 November 2015 at the latest.

THE FINANCIAL SECTOR AND THE ROLE OF CREDIT GRANTING WITH REGARD TO THE ENVIRONMENT AND SUSTAINABILITY

The environment and sustainability are very important issues, even for the financial sector. Governor of the Bank of England and chairman of the Financial Stability Board (FSB) Mark Carney observed in a speech held in September that climate changes is actually a threat to financial stability and long-term welfare[1].

One main function of the financial sector is to supply and allocate capital. The allocation can be done by means of saving in, for instance, funds, and by the banks granting loans.

Based on the focus for this report, an environmental and sustainability perspective in the banks' credit granting, the fund market provides an interesting comparison. The fund market has developed over time with regard to the environment and sustainability. The funds are currently open about the aims of their fund management and in which type of activities the customers' savings are invested. Customers and other stakeholders have access to information on how the funds' holdings shall be invested, as well as regular information on how the holdings are actually invested. Customers therefore have good opportunity to choose what type of operations their savings shall be invested in, for instance, operations that promote the environment and sustainability. In addition to regulations, developments on the fund market have been driven by the customers' demand for transparency. This has occurred at the same time as the branch has taken its own initiatives to increase transparency.

The allocation of capital also takes place through individuals and companies depositing money in deposit accounts with the banks, which in turn provide credit to individuals and companies. As credits to companies are normally aimed at the companies funding their operations and making various types of investment, the purpose of the loan, access to credit and the credit grantor's requirements with regard to the credit are important with regard to a positive or negative impact from an environmental and sustainability perspective.

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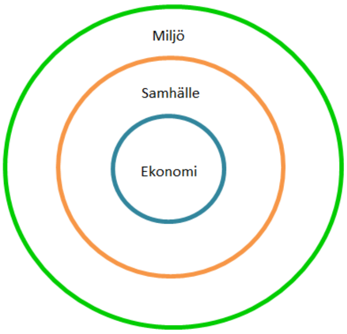
[1] Carney, "Mark Carney: Breaking the tragedy of the horizon – climate change and financial stability". 2015



Figur 1. Illustration av den integrerade synen på ekonomi, samhälle och miljö.

The concept of sustainability

Sustainable development and sustainability are both concepts that have changed in significance over the years. One of the first definitions that also came to be generally-accepted for many years was the one presented by the Brundtland Commission in 1987:

"development that meets the needs of the present without compromising the ability of future generations to meet their own needs"[2]

The definition has been developed over the years and began to focus more on the link to and integration between economic development, society and environment[3]. At the Rio+20 Conference[4] 2012, organised by the United Nations, it was observed that an integrated view of the economy, society and environment is a necessary condition for sustainable development in the future. This development of the concept of sustainability is seen as meaning that a healthy planet is needed to have a sustainable, social and economic development. [5]
See Figure1.

2 Brundtland, "Common future: Report of the World Commission on Environment and Development". 1987, 41

3 Sachs, "The age of sustainable development". 2015

4 The Rio+20 Conference is a conference on sustainability that was organised for the third time by the United Nations in 2012. Rio+20 was one of two follow-ups of the original conference held in Rio de Janeiro in 1992. The other was held in Johannesburg in 2002. (Rockström & Klum, "Big World Small Planet: Abundance within planetary boundaries". 2015)

5 (Rockström & Klum, "Big World Small Planet: Abundance within planetary boundaries". 2015

Implementation of the survey

INTRODUCTION

FI has made a survey of nine selected banks[6] and their internal rules[7] on credit granting to companies on the basis of an environmental and sustainability perspective.

PURPOSE

The purpose of the survey has been to examine the banks' internal rules for credit granting to companies and where necessary to propose measures in accordance with the assignment from the Government.

SAMPLING

The sample used for the survey consisted of nine banks. FI has chosen as its starting point the Swedish banks whose combined corporate lending in Sweden comprises the majority of total corporate lending.

FI assesses that this sample provides a sufficient basis for the survey to provide relevant results.

METHOD

The survey has been limited, in line with the Government's assignment, to what can be discerned from the internal rules.

FI has analysed the following material:

- The banks' internal rules governing credit granting, and other internal rules that according to the banks' own assessment affect credit granting to companies from an environmental and sustainability perspective.
- The banks' descriptions of their credit granting to companies from an environmental and sustainability perspective.

In addition to this, FI has reviewed the legal conditions relevant to the assignment from the Government and the report to the Government.

APPROACH

To be able to report the banks' internal rules for granting credit to companies from an environmental and sustainability perspective, FI has needed to formulate an opinion on what an environmental and sustainability perspective in credit granting entails. FI has chosen to take a broad approach in this report, on the basis of how the Government has formulated the assignment. FI's starting point in the survey of the banks' internal rules has been as follows: Whether the banks

6 The credit institutions included in the sample are Nordea Bank AB, Skandinaviska Enskilda Banken AB, Swedbank AB, Svenska Handelsbanken AB, Kommuninvest i Sverige AB, Aktiebolaget Svensk Exportkredit, Landshypotek Bank AB, Länsförsäkringar Bank AB and SBAB Bank AB. Kommuninvest i Sverige AB and Aktiebolaget Svenska Exportkredit are not banks, they are credit market companies. However, we will refer to all of the credit institutions in this report as banks.

7 Internal rules: policy and governance documents, guidelines, instructions or other written documents through which an undertaking governs its operations. Finansinspektionen's regulations and general guidelines regarding governance, risk management and control at credit institutions. (FFFS 2014:1)

take into account, when granting credit to companies, the environmental consequences linked to the credit, the borrower or the borrower's operations from a sustainability perspective (see fact "The concept of sustainability" page 5).

Legal conditions

INTRODUCTION

As shown in the section “Background”, FI shall report on the banks’ guidelines for granting credit to companies from an environmental and sustainability perspective. Chapter 6 of the Banking and Financing Business Act (LBF) (2004:297) contains general provisions regarding how banks shall conduct their operations. Section 5 of the same chapter contains a provision stating that the banks shall have written internal guidelines and instructions (internal rules) to the extent needed to govern their operations. The question is then whether there can be considered to be requirements made of the banks to take into account an environmental and sustainability perspective in their credit granting.

OVERALL REQUIREMENTS REGARDING CREDIT RISK MANAGEMENT

A bank’s credit granting is primarily regulated on the basis of risk. In addition, there are consumer protection aspects to be taken into account, although these are not discussed in this section. A bank shall, according to Chapter 6, Section 2 of the LBF, identify, measure, steer, internally report and maintain control over the risks associated with its business, and in particular ensure that its credit risks, market risks, operational risks and other risks as a whole do not jeopardise its ability to fulfil its obligations (the bank’s risk management system). Moreover, there is an explicit provision in Chapter 8, Section 1 of LBF that states the banks must before granting credit examine the risk that the obligations following on from the credit agreement cannot be met and that the bank shall only grant the credit if there are good grounds that the obligations will be met. Credit risk means, in brief, the risk that the borrower is unable to repay the loan, which can ultimately put the bank’s solvency at risk.

When the bank is to assess the borrower’s ability to repay, all important circumstances shall be taken into account. This means, for instance, that if the borrower is involved in activities that can have harmful effects on the environment and can ultimately entail damages or other costs that involve an increased risk that the borrower will be unable to meet their commitments, the banks shall use such circumstances as a base for assessing the credit risk. Similarly, potential environmental risks linked to the collateral for the loan shall be taken into account. The consideration given by the bank in this respect is thus strictly a business aspect and does not mean that the bank should take further environmental or sustainability aspects into account, unless these are judged to affect the borrower’s ability to repay or the value of possible collateral for the loan.

REPUTATIONAL RISK IN CREDIT GRANTING

As shown above, it is only credit risk, market risk and operational risk and the risks that come within these concepts that are stated specifically in the operating regulations covering risk management. Other risks, such as strategy risk, systemic risk, legal risk and reputational risk are examples of risks covered by the concept “other risks” in the regulation. A fundamental motive behind the operating regulations for banks is to maintain confidence in the individual bank and the banking market as a whole. Risks that can be assumed to lead to a decline in confidence in the bank, and ultimately to a deterioration in the value of the bank, are often called reputational risks. Reputational risk can be directly expressed in that, for instance, the bank loses customers and cooperation partners, loses staff and experiences difficulty in attracting staff. Depending on the nature of the reputational risk, the bank can also experience difficulty obtaining financing on the market. In this respect, it is most relevant to note the reputational risk that may arise in connection with the credit granting. A bank that finances operations that are more or less dubious from the perspective of the environment and sustainability naturally runs the risk that customers and other stakeholders as well as the general public may lose confidence in the bank. This risk must be managed in the usual way within the scope of the bank's risk management system. In the same way as for all other risks, the bank must have methods for regularly evaluating and maintaining a capital that is sufficient to cover the nature and level of the reputational risk in case the risk materialises. As for credit risk, there is thus no requirement in the strictest sense that the bank must do anything other than observe business considerations when managing reputational risk and quantifying it on the basis of the overall regulations on risk management and internal capital evaluation.

REQUIREMENTS OF ETHICAL BEHAVIOUR

However, situations may arise where a bank's behaviour, in addition to giving rise to reputational risk, triggers the application of other regulations applying to the operations. FI's general guidelines regarding guidelines for handling ethical issues state that the banks' operations shall be conducted in such a way that the general public's confidence in the bank and the financial market are maintained and that operations can be considered sound. Moreover, it is stated that a sound development of the business requires that the bank conducts is business ethically, which in turn requires that it establishes guidelines in this field. The guidelines should contain, for instance, rules of conduct regarding credit granting aimed at ensuring that the operations are conducted at all times within the scope of the applicable rules and regulations and in an ethically acceptable manner.

The general guidelines are based on the regulations in Chapter 6, Section 4 of the LBF, which states that a bank's business must be conducted in a manner that is sound, even in other aspects that what is stated with regard to risk management (”the soundness provision”). The essential purpose of the soundness provision is to maintain confidence in the banking market[8] in that the banks shall maintain a certain minimum standard in their business. For instance, the provision applies to breaches of all types of norm. It can apply to norms given in the form of legal acts or other regulations, non-binding regulations issued by public authorities, regulations of private bodies such as trade organisations or similar, or established moral or ethical standards[9]. When a bank is to determine what is allowed in a particular area, it shall thus look at the more specialised legal provisions in the area and the clarifying regulations and general guidelines that may be issued in

8 Bill 2002/03:139 p. 286.

9 Bill 2002/03:139 p. 285.

connection with the provision. It is this material that shall give guidance in the interpretation of the provision concerned.[10] The regulation is thus aimed at the behaviour of the individual bank, and not the borrower. If a bank's behaviour is to be considered a breach in this context, it must be linked to standards aimed at the bank in its role of credit granter. The standards that are exclusively linked to the business the bank finances thus cannot be used as an assumption that the bank does not run its operations in a sound manner.

SUMMARY

FI does not have any opportunity within the scope of its supervision to require that the banks take special measures to promote an environmental and sustainability perspective in their credit granting over and above the observation of the statutory requirements regarding risk management and soundness. Correspondingly, FI cannot prescribe on these obligations as the powers of authority at FI's disposal are based on the legal provisions described and their underlying purpose.

10 Bill 2002/03:139 p. 285.

The banks' internal rules for granting credit to companies

INTRODUCTION

The banks' internal rules show that all nine banks included in the survey take an environmental perspective into account in some way when granting credit to companies. However, the way this is managed in the internal rules varies from bank to bank.

ENVIRONMENTAL RISK PART OF CREDIT RISK

All of the banks, with the odd exception, have internal rules that state that the environmental risk shall be judged, as part of the credit risk, when granting credit to companies.

According to the internal rules, acts and regulations in the environmental field shall be observed by the potential borrower for the banks to grant the credit. It is also clear throughout the internal rules that the banks in certain situations are to make a more in-depth analysis of the environmental risks over and above the observance of laws and regulations. This could concern, for instance, a potential borrower running a business that manages poisonous waste, that a potential borrower has acquired land that may be polluted and need decontaminating, or that a potential borrower runs a business that currently generates a profit but may not do so in the future if society's view of the company's business changes. In these cases, the basic conditions for the environmental situation (inherent environmental risk) in connection with the borrower are analysed, as well as the borrower's ability to manage the environmental risks. The borrower's ability to manage environmental risks applies both to the process that reduces the risk that problems will arise and the ability to manage the risk if it nevertheless has materialised or would materialise.

In this context, FI has assessed that it is a question of environmental risk as part of credit risk and thus not a judgement and management of the environmental risk based on consideration for the actual effects on the environment. It is thus a question of an assessment of the environmental risk from a financial aspect, where a higher environmental risk as part of the credit risk can lead to a poor deal for the bank. If the environmental risks materialise, they can have a negative effect on both the borrower's ability to repay, and the value of the collateral the borrower has provided if there are environmental complications linked to it.

There are differences between the banks with regard to the way internal rules prescribe taking environmental risk into account as part of the credit risk. FI judges that the differences are largely due to internal rules being fit-for-purpose on the basis of the conditions and circumstances applying to the bank in question. Differences in operational focus or the degree of international business mean that the banks have different aspects to relate to in their credit granting. As a consequence, the banks have different circumstances to take into account when formulating and deciding on appropriate internal rules for granting credit to companies. It is very important that the internal rules are fit-for-purpose and take into account the conditions of the bank concerned. One example here is that a bank with extensive international operations probably has a more complicated environmental risk outlook to take into account in its internal rules than a bank with mainly domestic operations.

ENVIRONMENTAL RISK – REPUTATIONAL RISK AND ETHICAL GUIDELINES

It is not only the environmental risk as a business part of the credit risk that is taken into account in the banks' internal rules on granting credit to companies. Most of the banks surveyed have also taken environmental risk into account in their internal rules in connection with reputational risk and ethical guidelines.

The internal rules for most of the banks show that if environmental risk is of such a nature that the bank assesses the business to be incompatible with the bank's ethical guidelines, that the business can damage the bank's image or entail a reputational risk that is too high, the business can or shall be stopped for this reason. This also applies if the bank judges that the environmental risk is manageable from a business perspective.

ENVIRONMENTAL AND SUSTAINABILITY PERSPECTIVE IN CREDIT GRANTING

FI has seen examples among the larger banks of business-specific internal rules aimed at, for instance, forestry, energy or shipping business. Such internal rules aim to clarify the banks' attitude to the specific businesses. It is not unusual for the banks to deal with important and specific environmental and sustainability aspects for the respective business in these internal rules, going over and above the legal obligations the banks have to observe when granting credit. For instance, it may be stated in the internal rules that the bank must ensure when granting credit that the potential borrower runs their operations in a way that is compatible with environmental norms and international principles within the specific industry, and that the borrower takes sustainability into account in various ways.

FI has also seen examples in the survey of banks that have established sustainability councils or similar bodies. In the cases where it is difficult to assess the sustainability aspect, the internal rules state that these bodies can provide support to operations, for instance, in credit-granting situations.

One of the larger banks included in the survey expressed in its internal rules that its attitude to business partners, for instance, borrowers who do not live up to the banks' requirements regarding, say, environmental considerations was to try to influence the business partner towards taking greater consideration of the environment rather than to terminate the business relationship. How this takes place in practice is not shown in the internal rules to which FI has had access. The bank further claims the opinion that this approach creates a greater positive change than terminating a business relationship. However, it is claimed that if the attempts to influence in a positive direction do not prove fruitful and the business partner does not make the efforts the bank considers necessary, the business relationship can be terminated as a final measure.

It is also clear that the larger banks in particular, as well as banks with international operations, have joined international initiatives and international principles such as Global Compact, United Nations Environmental Programme Finance Initiative (UNEP FI), OECD Guidelines on Multinational Enterprises (these are explained in more detail towards the end of this section).

Depending on how the banks have introduced and applied such principles in their credit granting, the principles may entail different degrees of influence on credit granting from an environmental and sustainability perspective.

Two of the larger banks in the survey are also taking part in Equator Principles (EP). EP is an international initiative that offers a risk management framework that its members undertake to use when evaluating the borrower and assessing the purpose of the credit. The purpose of EP is to promote responsible financing. The credit shall not be granted unless the requirements in the EP framework are met by the borrower. However, with regard to the few banks in the survey that are members of EP, only a small percentage of the total lending to companies passes through the EP risk management framework. This is because of the criteria established by EP with regard to which transactions are covered by the framework. (EP is explained in more detail at the end of this section)

On the basis of the approach that FI has chosen to take in this report, with regard to defining environmental and sustainability aspects of credit granting, FI can see differences between how the banks in the survey has chosen to take into account the environmental and sustainability perspective. It is mainly in the larger banks, together with one smaller bank, where all of these have significant international operations, that the environmental and sustainability perspective is expressed in the internal rules in a more extensive and detailed manner in relation to other banks in the group. This applies both to the scope and contents of the internal rules, as well as the level of ambition the banks express in contributing an environmental and sustainability perspective to their credit granting. This is also the same circle of banks that to a greater degree have joined international initiatives and principles.

Although the larger banks jointly differ from the smaller ones, there are also differences within the group of larger banks. The differences apply to the scope and degree of detail in how environmental and sustainability perspectives are expressed in internal rules. However, the differences do not appear to be explained by anything other than different levels of ambition with regard to environmental and sustainability perspective in credit granting.

The smaller banks in the survey, which do not have any extensive international operations, limit their environmental perspective to a greater degree to regarding environmental risk as part of credit risk, and partly in a reputation context.

ENVIRONMENTAL AND SUSTAINABILITY PERSPECTIVE IN THE DESIGN OF LOAN PRODUCTS

The survey shows that two of the smaller banks offer loan products aimed at encouraging environmentally-sustainable business practice. As a result of the method FI has chosen for the survey, FI is not able to rule out the possibility that further banks in the sample offer loan products designed from an environmental and sustainability perspective.

One case concerns a loan that the potential borrower can apply for to finance measures to improve energy and/or the environment. The product offers more favourable loan terms and conditions, such as lower interest than the bank would offer for corresponding loans for other purposes. According to the information FI was given, the bank aims to set targets for selling these loans, as part of the bank's work on an environmental perspective and to influence the environment in a positive way. At the time of FI's survey, the bank had not yet set such a target.

The second case concerned a so-called green bond. The bank then lends the funds the bond enables the bank to receive to purposes that meet the environmental and sustainability requirements the bank has set. The requirements are aimed at the positive environmental effects the borrower shall attain with the investment for which the loan is used.

Global Compact

Global Compact is a global initiative for corporate sustainability. The initiative has been run by the United Nations (UN) since 1999 and now covers more than 7,000 companies from more than 140 countries. The initiative has created ten global principles on human rights, labour, the environment and anti-corruption in business. Three of these principles concern environmental issues, such as promoting and encouraging corporate responsibility for the environment. Global Compact also aims to take a strategic position regarding larger social aims.[11]

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a global partnership between the United Nations Environment Programme (UNEP) and the financial sector. The partnership was created in 1992 following the environmental and development conference in Rio de Janeiro the same year. UNEP FI is a platform to tie together the United Nations and the financial sector. The aim of the initiative is to contribute to a systematic change in the financial sector to be able to promote the development of a more sustainable world. The UN considers a sustainable financial system to be a necessary condition for attaining the aim of a more sustainable world and global economy. UNEP FI works on understanding how climate changes, environmental and social factors affect the financial sector.[12]

Equator Principles (EP)

Equator Principles is a framework for risk management of environmental and social risks in financial institutions. The framework helps to identify, assess and manage risks in various credit-granting projects. EP can be applied to financial products, such as project funding. The task of the framework is to provide the necessary tools for risk analysis when granting credit. The framework thus comprises a minimum standard for making requirements of borrowers. At present, EP has 82 financial institutions from 36 different

11 UN Global Compact, "What is Global Compact". 2015; UN Global Compact, "The Ten Principles of the UN Global Compact" 2015b; UN Global Compact, 2012

12 UNEP FI, "About". 2015

countries as members. EP has recently received greater attention in the financial sector as the framework helps institutions to apply sustainability to their credit granting in practice.[13]

The principles state that: *"We, the Equator Principles Financial Institutions (EPFIs), have adopted the Equator Principles in order to ensure that the Projects we finance and advise on are developed in a manner that is socially responsible and reflects sound environmental management practices. We recognise the importance of climate change, biodiversity, and human rights, and believe negative impacts on project-affected ecosystems, communities, and the climate should be avoided where possible. If these impacts are unavoidable they should be minimised, mitigated, and/or offset."*[14]

OECD Guidelines on Multinational Enterprises

The OECD guidelines on multinational enterprises consist of recommendations from the governments of 44 OECD countries as to how multinational enterprises shall conduct their business responsibly. The OECD guidelines contain principles drawn up on the basis of global legislation and internationally-recognised standards. The aims of the guidelines are to ensure multinational enterprises' activities are in line with the country's government policies and to promote sustainable development. The guidelines encourage companies to include in their assessments the need to protect the environment, public health issues and security when planning their operations, to contribute to attaining the greater aim of sustainable development.[15]

13 Equator Principles, "About EP". 2015; Equator Principles, "Equator Principles III". 2015

14 2015; Equator Principles, "Equator Principles III". 2015

15 United Nations Global Compact, "The UN Global Compact and the OECD Guidelines for Multinational Enterprises: Complementarity and Distinctions". 2012; OECD, "Multinational Enterprises Guidelines". 2015

The way forward

BASIS FOR FUTURE WORK

The legislative requirements with regard to an environmental perspective in granting credit to companies rest with the banks weighing in the business aspects of environmental risk into their credit assessments, and managing the reputational risk that environmental risk can entail. What FI has seen from the survey carried out is that the banks take into account the legislative requirements in their internal rules.

One can argue that positive effects on the environment are probably attained by the banks following the legislative requirements. By focusing on the environmental risks, banks can influence less sustainable companies to become more sustainable. If an efficient management of environmental risk is a necessary condition for being able to obtain credit, it may lead to the banks then influencing companies to take measures to attain a positive environmental effect. Thus, the environmental and sustainability perspective can benefit from banks analysing and assessing the environmental risk in connection with granting credit to companies, without environmental considerations actually being the main reason for attaining the positive environmental effects.

Similarly, one can argue that the banks' management of reputational risk can have a positive effect on the environment. Reputational risk is dependent on what the media and the general public consider to be negative from an environmental and sustainability perspective. The more critical the general public is with regard to environmental risks, the better developed the management of credit granting will have to be for the banks to be considered to have a suitable management of reputational risk. The banks may need to adapt the supply and pricing of their loans, and set high requirements of the borrower when granting credit to businesses that entail higher environmental risks. Such management of reputational risk could therefore lead to positive effects on the environment.

In addition to taking into account legal requirements in the field, it would appear from FI's examination of the internal rules that many of the banks give greater consideration to the environmental and sustainability perspective than is actually required by law. Various self-assumed initiatives, such as following internationally-accepted principles or joining international initiatives and standards, show that several banks are making efforts to adapt their credit granting to take account of environmental and sustainability issues to a greater extent. It is not unusual for the banks to state in their internal rules that consideration shall be given to, for instance, the principles of the Global Compact. However, it is not always clear what effect such provisions in the internal rules have on the business decisions in the credit-granting process.

FI also wishes to point out that in the material to which FI has had access the banks state that their work and their ambitions with regard to the environment and sustainability are increasing. For instance, FI has read the far-reaching but not yet adopted internal rules and descriptions from the banks stating that the banks are moving forward their positions with regard to the environment and sustainability.

FUTURE WORK

FI's survey shows that the banks are taking the environmental and sustainability perspective into account to a greater degree in their credit granting than is required by the law. Further, FI assesses that the banks' work in this field will probably increase in scope. Nevertheless, further measures also need to be considered to hasten this development.

FI does not consider it appropriate to regulate credit granting in greater detail with regard to an environmental and sustainability perspective. The current regulation is aimed at the banks managing their risk and the credit assessment containing the economic aspects that affect the credit risk. The risk assessment shall be reflected in the pricing of the credit. The level of the credit risk also determines the capital the banks shall hold to cover their risks. Correctly-assessed credit risk, correctly-priced loans and the right capital in relation to the risks give the banks the capacity to meet their obligations, which is a necessary condition for a stable financial system. In addition to what needs to be done now to manage the environmental risk, FI does not consider that other aspects than economic ones should be weighed into the balance when assessing the credit risk. Other aspects include a more extensive environmental and sustainability perspective. This is also the starting point for the Basel Committee's Core Principles for Effective Banking Supervision[16].

Instead of regulating, FI considers it very important that the banks become more open with regard to the environmental and sustainability perspective in their credit granting. Either as part of the information the banks present now, for instance, in their sustainability reporting, or in another way that means that customers, investors, counterparties and other stakeholders can form an opinion of what level of ambition the bank has and how it takes the environmental and sustainability perspective into account in its credit granting. The banks should endeavour to ensure that their information on the environmental and sustainability perspective in their credit granting is simple, clear and easy to understand and also enables comparisons between the banks.

One example mentioned by FI at the beginning of the report, where transparency has contributed to a positive development in the environmental and sustainability perspective is the fund market. There customers can make decisions on what their invested funds are used for. Customers wishing to invest in funds that put capital into businesses that promote environmental and sustainability issues have the possibility to do so. As investors and consumers become more aware of the importance of sustainable development, businesses that contribute to sustainability can be promoted. Similarly, FI considers that transparency with regard to the banks' credit granting strengthens the position of the bank customers and investors. Customers and investors then have the possibility to weigh the banks' environmental and sustainability perspective in credit granting into their decision of whether to become a customer of the bank or to invest in it.

16 Bank for International Settlements, "Core Principles for Effective Banking Supervision". 2012

Transparency is an important driving force for change and can in this context create further incentives for the banks to continue to increase the scope and ambition of their work in the environmental and sustainability area. Increased transparency could therefore serve a purpose in promoting a sustainability perspective in credit granting.

Branch initiatives have been a contributory factor to the development of the fund market. FI’s stance is that branch initiatives are also the desirable means of achieving increased transparency with regard to the banks’ credit granting to companies. One reason is that branch initiatives in this context can quickly and efficiently achieve a change. At the same time, branch initiatives would provide scope for a further continued adjustment and development, which could be necessary given that the view of sustainability is constantly developing in line with newly-won knowledge of what is required to attain a long-term sustainable development.

If no branch initiatives were forthcoming or if they were insufficient, FI is of the opinion that regulation might need to be considered. As FI has described in the section on the legal conditions, it is not possible for FI to issue such regulations. It would in this case be up to the Government to consider how the question of regulation should be dealt with.

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