



*in partnership with IFC and the Sustainable Banking Network*

## **TERMS OF REFERENCE**

Research & Capacity-building Programme on addressing environmental & social drivers of systemic risk in the financial system

### **Background & Rationale**

In 2014 UNEP FI and the Cambridge Institute for Sustainability Leadership (CISL) jointly produced the report “Stability and Sustainability in Banking Reform – Are environmental risks missing in Basel III?” with a view to alerting financial regulators (especially at the supranational level) to the materiality of environmental (E&S) risk to financial stability, and to provide general recommendations of what to do about such risk.

The number of bank regulators taking steps to better understand and address E&S risks has continued to grow, and the topic has gained some traction at the international level, as evidenced by a number of G20-led initiatives (FSB Task Force on Climate-related Financial Disclosure, G20 Green Finance Study Group).

Many discussions are as yet at the exploratory level, and as for the actions and approaches adopted by regulators and supervisors, these present significant differences in motivation, goals and implementation. The nature of the links between what banks do and don’t finance on a daily basis, and the safety and soundness of the system as a whole, as a factor of E&S risk, remains difficult to capture.

UNEP FI wishes to build on its prior work, to provide a more granular understanding of how E&S drivers create systemic risk for the financial sector and beyond, and what banks, supervisors and regulators are currently doing to address these. It is also interested in building the capacity of these players in this field.

### **Deliverables**

- i) Working paper of 30-35 pages providing a) a taxonomy of E&S risk faced and transmitted by banks at different levels (transaction, portfolio, systemic), b) an overview of current practice and motivations, c) an analysis how the different layers of risk are being addressed by practice and whether there are any gaps, and d) recommendations on what measures might most effectively be taken.

- ii) Consultation and outreach process vis a vis targeted banks and regulatory/supervisory bodies in select countries to consolidate and disseminate research findings.
- iii) Capacity-building programme based on the process and findings of the research leading to the working paper.

## **Purpose**

The overall purpose of this two-pronged programme is to clarify the relevance of E&S factors at the transaction and portfolio level to broader, systemic risk and, as a result, how banks and supervisors/regulators might most effectively enhance the safety and soundness of the financial system (and reduce systemic risk) based on a holistic appreciation of financial and non-financial considerations in the contexts of banks' business decisions.

## **Description**

- i) Research

The research should cover the following elements:

- Summary of current understanding of E&S risk (how it is generated and at what level it is relevant – transaction and portfolio), geographically contextualized (selective, not exhaustive).
- Taxonomy of E&S risk clarifying the systemic relevance of E&S risk (how transaction and portfolio choices can perpetrate or counter systemic risk).
- Illustrated overview of what is currently being done with regard to (or relevant to) E&S risk by banks (e.g. at transactional level: enhanced due diligence, positive screening, at portfolio level: carbon accounting and decarbonisation, valuation of natural capital, green/social lending/investment targets, etc.) and banking supervisors/regulators (e.g. requirements for sustainability policies and/or E&S risk management systems, recommendations for conducting environmental stress testing and/or disclosure, etc.) – geographically contextualized.
- Analysis of the extent to which the measures taken are addressing the most important aspects of E&S risk from a systemic perspective, based on the previously established taxonomy –identification of gaps. Does FI-level risk management (ESMS, portfolio management, etc.) appear to be sufficient to mitigate portfolio risk, and to what extent does this also reduce systemic risk (dependent on country context).
- Review of who has what responsibility under existing rules (FI, country, supranational regulators), latest thoughts/actions on how E&S risk could/should be addressed, and if/how similar types of risk have been addressed within regulatory systems previously.
- Recommendations for banks and supervisors/ regulators on roles actions to address E&S risk, in particular the gaps that would make the difference at the systemic level.

ii) Consultation/outreach process

Leading experts from the banking and regulatory/supervisory communities (via UNEP FI network) to be mobilized to review and consolidate research findings at predetermined key phases. This can be done both through punctual consultations and interviews, and through the constitution of a core Advisory/Expert Group for the project.

iii) Capacity-building

The capacity-building component is to be designed and developed on the basis of the research outcomes and recommendations. Target audience: high-level representatives of both industry (risk, strategy and business development departments) and supervisor/regulatory audiences, with sensitivity to geographic specificities. Delivery mode is to be devised accordingly but may commence with a targeted road-show (using mainstream banking sector convenings) of the research results (see previous section) and recommendations as a basis for developing more hands-on training if/as relevant.

**Delivery Date**

Research to be completed by Q2 2017.

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**Submitting a proposal**

Independent consultants are sought to deliver this ToR, either solo or as a team (preferably limited to two persons).

Candidates should present the following characteristics:

- Be open-minded and interested in new concepts
- Have demonstrable and extensive knowledge in the field of economics and finance, with a particular interest in macroeconomic and macroprudential issues
- Have first-hand and significant experience in commercial/wholesale banking (e.g. credit risk)
- Have demonstrable interest and knowledge of sustainability issues (environment and/or social issues)
- Have significant exposure and sensitivity to both emerging market and developed country realities
- Proven ability to analyse complex issues and to communicate them in a simple and targeted manner
- Proven capacity to write in English

Proposals should be sent to: [careen.abb@unep.org](mailto:careen.abb@unep.org)